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International

* Signs of Changing M&A Strategy Reported

902A0188A Tokyo NIHON KEIZAI SHIMBUN in Japanese 9 May 90 p 2—FOR OFFICIAL USE ONLY

[Text] Signs of anomalous changes are appearing in M&A (corporate mergers and acquisitions) activities by Japanese enterprises that have been increasing steadily over the last few years. Some large-scale M&A deals have collapsed one after another: the takeover attempts by Japanese firms Friends of (Furiijia) (main office in Tokyo; Mr. Beji Sasaki, president; capitalized at 20 million yen), a leading mail-order firm in Japan, and Tobu Department Store aimed at U.S. firms Avon Products-Japan and Saks Fifth Avenue, respectively, are the cases in point. Meanwhile the takeover methods have become more and more complicated and the focus of international M&A activity by Japanese, hitherto centered in the United States, is shifting to Europe, where the number of Japanese takeover cases is rising sharply. In the background of these emerging trends are such circumstantial changes as the end to the high stock prices and low interest rates that have helped the aggressive M&A activity of the past, the growing investment frictions, and the quickening pace of the move to integrate the markets in Europe.

"Although this is not public knowledge, since the beginning of the current year lots of takeover cases have been called off in the middle of negotiations," disclosed Mitsuo Goto, president of Nomura Corporate Information, an M&A brokerage firm. According to him, the falling yen and rising interest rates are making it difficult to assess the profit potential of investment, which is the reason why more and more takeover-minded companies are opting to shelve takeover negotiations until external circumstances become stabilized.

A survey by Yamaichi Securities shows that the takeovers of foreign companies by Japanese firms in 1989 numbered 448 cases, an increase of 34.1 percent over the year before. In almost all cases, the M&A moves by Japanese firms are taken for reasons based on the company's management strategy; for this reason, some hold the view that "it is unlikely that a slight deterioration in external circumstances would decrease the number of M&A cases" (words of Kenji Sugaya, director of management affairs, company main office). Be that as it may, there is a strong possibility that the pace of increase will slow down in the days ahead.

A telling incident precursory to the changing trend in the M&A activity was the drama surrounding the attempted takeover of Avon Products (Avon of Japan) by Friends of (Furiijia)—the case that became the talk of the town as an example of "a midget trying to swallow a giant." At the end of last month, after a one-month extension of the negotiation deadline, the deal ended up being returned to the drawing board.

Explaining the reason for the rupture of the negotiations, President Sasaki and others of Friends of (Furiijia) cited the fact that Avon's main company in the United States had become the target of takeover by a group of investors, which raised doubts in their minds as to whether the license provisions would be honored even if a contract were signed. But there is also a firmly held view among those connected with the securities business that the Avon deal fell through because the fund procurement position of the would-be buyer had changed for the worse.

The funds needed for the takeover of Avon, 65 billion yen, was to have been raised through bank loans; however, according to some in the know, "the intended collateral was mostly in stocks." In other words, when the stock market began wavering, the value of the collateral decreased, creating financing difficulties, according to these sources.

The adverse impact of sluggish stock prices on takeover financing applies just as much to the corporations that are listed on stock exchanges. There have been many acquisition cases in the past in which the takeover fund was raised through equity financing (fund procurement through issuance of new stock) as was the case with Sony's takeover of CBS Record and Columbia Pictures.

It seems likely that the number of large-scale M&A moves by Japanese companies will decline in the days ahead as the impact of the rising interest rates and falling stock prices is felt in full force.

Changes are already showing up not only in the number of cases and the amounts of money involved but also in the modality of the M&A activity as well. The need to minimize the risk arising from an increased financial burden and the desire to avoid investment frictions are beginning to make the takeover method more complicated than before. Particularly noteworthy in this respect is the emergence of the "group takeover" method, in which the buyer teams up with the management staff of the target corporation or with an investment bank to make the takeover bid a group undertaking.

Kikkoman Corp. was the first to use the group takeover method last fall when it teamed up with Merrill Lynch, among others, and took over the processing division of Del Monte. This deal, if done single-handedly, would have required a total of slightly less than $1.5 billion; however, because the LBO (leveraged buyout) and group takeover methods were used, with an investment of just $150 million Kikkoman was able to acquire the trading rights and the trademark rights on the Del Monte brand in the Far East region.

Another noteworthy thing about the group takeover method is that, because it is a joint undertaking with local investors of the target corporation, "it is also an effective means of avoiding investment frictions" (Merrill Lynch's words).

The attempted takeover of Saks Fifth Avenue by Tobu Department Store, too, even though it did not come to fruition, was to have been financed through a combination of LBO and group takeover methods.

The geographical target of Japanese M&A activity is changing, too. The activity had continued to grow mainly in the United States in the past, but beginning in the fall of 1988 the number of cases has been increasing in Europe. According to a survey by Yamaichi Securities, in 1989 the number of European corporations taken over by Japanese firms reached 114, nearly twice as many as the number in 1988.

In 1989 Japanese takeover cases in the United States numbered 226, which still topped the list; but, in terms of the rate of increase in Japanese M&A activity, Europe surpassed the United States by a great deal.

What is spurring Japanese takeover of European corporations is the EC's move toward market integration. During the limited time remaining between now and 1992, when the EC is expected to have a unified market, Japanese companies are trying to improve their production and sales facilities as much as possible in Europe. Given the strong possibility of further expansion of the European market as a result of the economic liberalization of the countries of Eastern Europe, the chances are Japanese M&A activity in Europe will increase even more than it already has.

In sum, it seems fair to say that the M&A strategy of Japanese companies has now entered upon the second phase in all its aspects—scope, target, and method.

Government Sets Current Account Surplus Goal

OW?105065690 Tokyo YOMIURI SHIMBUN in Japanese 28 May 90 Evening Edition p 1—FOR OFFICIAL USE ONLY

[Text] In connection with the current account surplus, the Finance Ministry on 28 May firmed up a policy goal which "calls for the need to keep the current account surplus at a level of about two percent of the gross national product (GNP) for the time being to make it possible for Japan to cooperate financially with foreign nations as a creditor nation." The ministry firmed up this policy goal after finding that the 1989 current account surplus dropped 30 percent from the previous year to $53.5 billion, accounting for 1.9 percent of the GNP. The ministry plans to stress the need to maintain the current account surplus at the 1989 level in the belief that although Japan will continuously work on redressing trade imbalances to avoid frictions with its trade partners, a runaway drop in the current account surplus, it is feared, will make it difficult for Japan to cooperate financially with developing nations, East European nations, and the United States, which is saddled with fiscal deficit.

Japan's current account surplus has been steadily dropping since early this year. The ministry envisages the surplus to reach $56 billion (or 1.9 percent of the GNP) in 1990, an amount close to the government's goal. However, Japan's exports in terms of quantity have been increasing since early this year, showing signs of returning to the past trend of boosting exports. Therefore, the ministry plans to reduce the current account surplus at a slow pace, while holding on to the policy of cutting trade surpluses.

The ministry intends to keep the current account surplus at about two percent of the GNP, because it anticipates that about one percent would be needed for financial cooperation with developing nations, and the remaining one percent for making up the fiscal deficit of the United States through the purchase of national bonds and through direct investments in Europe following democratization in East European nations and German unification. The ministry plans to keep the current account surplus at a little less than a two-percent level of the GNP if possible, taking into account the fact that when the current account surplus amounted to more than two percent of the GNP in the past, intensive external frictions occurred. It is conceivable that Japanese enterprises would not make business inroads into East European nations as anticipated. Even if such a phenomenon occurs, there will be no change in the ministry's goal of keeping the current account surplus at about two percent of the GNP.

In case Japan's current account surplus becomes an issue at a ministerial council meeting of the Organization for Economic Cooperation and Development (OECD) scheduled to be held in Paris from 30 to 31 May, the ministry plans to maintain that "the maintenance of Japan's current account surplus at about two percent of its GNP will be in the interests of the world economy for the time being."

Regarding Japan's current account surplus, the International Monetary Fund (IMF) and finance ministers and central bank governors of seven industrial nations (G-7) have changed their conventional stance on making unilateral demands that the surplus be reduced, saying that such a surplus is needed somewhat as a financial source to meet growing demands for funds as East European nations are shifting to market economies.

Government Urged To Prevent Bid Rigging

OW0106110890 Tokyo MAINICHI DAILY NEWS in English 30 May 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "To Do Away 'Dango'"]

[Text] Dango, or price fixing conspiracy in bidding, is a plainly illegal act. Not only does it violate the Anti-Monopoly Law, but it also is punishable by the Penal Code. No other violations have been committed as

frequently and as unscrupulously as dango. There is nobody who would deny that dango is routinely practiced in public works bids.

Since the 1977 amendment to the Anti-Monopoly Law, only 24 cases of dango have been exposed. This is not only because of the cleverness with which dango has been committed and the powerlessness of the Fair Trade Commission but also because of the social background that has tended to condone such an act. Actually, however, dango produces a number of ills in addition to violating the law.

First, dango brings losses to taxpayers. When dango is committed in a public works bid, the successful bidder gets the contract at a higher price than in an honest competitive bid, pocketing an unjustified profit.

An American economist estimates that the Japanese construction industry obtains as much as 16 to 33 percent of the amount of contract as surplus profit from dango. It should be recalled that in the dango scandal involving construction work at the U.S. naval base in Yokosuka, Japanese companies paid about 5 billion yen, 26 percent of the total contract of 19.3 billion yen, as settlement to the U.S. Government.

Second, dango has negative international implications. In the West, cartels are a major crime, and many of them are prosecuted vigorously and punished severely. Although a major difference of opinion exists traditionally between the West and Japan on the concept of competition, Japan should adopt internationally acceptable rules at a time when the standardization of economic rules is increasingly being called for. Otherwise, a "Japan is different" chorus will become louder, contributing to its isolation. In this respect, it is a step forward that the government is strengthening administrative penalities for dango in public works bids from June, 1, in response to U.S. requests. Twenty-five central government agencies and quasi-official organizations that order work have agreed on expanding the duration and areas of suspension of bid participation to violators.

The question is how much preventive effect the new measure will have. Administrative penalties are involved on those who have been prosecuted on charges of violating the Anti-Monopoly Law or the dango clauses of the Penal Code.

Japan has promised to amend and strengthen the Anti-Monopoly Law in the interim report of the Structural Impediments Initiative talks. As preparations are under way to that end, the government needs to take steps that really work. One is to give more teeth to the Fair Trade Commission. Another is to raise sharply cartel fines to conform with common international standards.

The system of tender must be examined. Instead of open competitive bids, Japanese Government agencies maintain a "designatory system," in which ordering agencies designate bidders. Without doubt this facilitates dango, and the U.S. has some reason when it criticizes that in Japan even the government is an accompolice to dango.

While the designatory system had its grounds, such as maintaining the quality of work and preventing dumping, it has developed serious problems in triggering bribery over bidder designation, in addition to fostering dango.

The Public Accounts Law says that open competitive bids are the rule, and allows designated competitive bids under limited circumstances. Now is the time to examine whether public works contracts fall in these limited circumstances.

Editorial Comments on Rice Policy, Problem

OW0306132590 Tokyo ASAHI EVENING NEWS in English 2 Jun 90 p 6—FOR OFFICIAL USE ONLY

[2 June editorial: "Chew on the Rice Problem"]

[Text] The ministerial meeting of the Organization for Economic Cooperation and Development (OECD) has closed without solving the differences between the United States and the European Community over how to reduce farm subsidies. The rice issue was not tackled seriously. In Japan, meanwhile, discussion of the issue has been stalled since the House of Councilors election last summer.

Is it desirable for this situation to continue any longer? It is time to continue and deepen discussion of the rice issue bearing in mind that Japan may be forced to consider a partial opening of the market to foreign rice.

The argument for protecting domestic rice farmers has so far been overwhelming, and there is little likelihood that a diversity of opinion on this issue will emerge. Keep in mind that behind this is the process by which the House of Representatives made the two bipartisan resolutions against opening up Japan's rice market.

We ought to give these resolutions the consideration they are due, yet it is doubtful that Japan can keep telling the world that it will never import a single grain of rice.

Politicians give their first priority to what their electorates want, because losing elections means they have to return to the ranks of ordinary people. It is not going too far to say that this fear pressures them into uniting behind a bipartisan policy against liberalization of the rice market without serious and complete discussion of the future of the farming industry.

Once a sacred cow is recognized as such it becomes difficult to hold a wide-ranging discussion on the subjet. Is this good for Japanese agriculture?

We have to pay attention to the equilibrium between agricultural protection and the scale of the Japanese economy from the perspective of the international community.

Japan has grown into an economic power with the world's second largest gross national product in 40-plus years. Japan's industrial products are now in factories and on store shelves around the world. Looking at Japan in this light, we wonder whether the international community buys its argument that the market for the staple rice should be closed to imports for the sake of food security.

The United States has been protecting its own farm products by using waivers under the General Agreement on Tariffs and Trade (GATT), the European Community by imposing variable surcharges on imported products. Therefore, some say, Japan too can protect its farm products. But this argument would cease to hold if the United States and the European Community were to take a big step toward compromise by reducing or eliminating their protective measures.

The United States has hinted that it would resort to sanctions against unfair trade practices under the Super 301 clause of its comprehensive trade act if Japan refuses to compromise on the rice issue in the Uruguay Round of the GATT trade talks. This posture is undesirable because it uselessly stirs up antipathy among the Japanese.

Some Japanese farmers have already made efforts to secure their livelihood by making their rice farms more competitive. We would like to enourage them as much as possible. Nevertheless, for the most part the argument over the rice problem has made no progress. We need to keep cool in this discussion, without getting excited at provocative remarks by the U.S. Administration.

United States

* Domestic Politics Seen as Structural Impediment

902B0097A Tokyo SANKEI SHIMBUN in Japanese8 Apr 90 p 5—FOR OFFICIAL USE ONLY

["Opinion Up" Column by SANKEI commentator, Ryutaro Ozaki]

[Text] Probably there have been no other times like today when the political climate for international gamesmanship is changing so rapidly and dramatically. The current Japan-U.S. Structural Impediments Initiative [SII] talks are being held in such a convulsive setting, and Japan is being requested to make structural improvements which can accommodate its role in these international games. It may be more appropriate to assume that Japan is urged to act on a "second opening of the country." What is important is that Japanese politicians including the opposition parties should recognize this national crisis—a national emergency—deep down in their guts.

Indeed, taking a look at the $50 billion trade surplus with the United States, Japan appears to be a nation which one-sidedly makes money. Even per capita GNP is higher in Japan than in the United States.

However, I, myself, don't feel that rich at all.

Revisionists generously tell us, "Behave more like a rich man." Once THE NEW YORK TIMES advised us in its editorial, "Eat better food and have a richer life."

Not withstanding their advice to behave like a rich man, I don't actually feel rich, and therefore I can't behave that way. Without needing to be told, the Japanese have dined to our heart's content on good and palatable foods. Yet, "my home" in the suburb is a dream in a dream even at the age of retirement after a lifetime of service in a company. We can only save so much of our money, and so giving up the idea of owning a house we compensate by purchasing a car and audio equipment which gives us, to a certain extent, a sense of well-being.

I can only blame this on devitalized and helpless Japanese politics.

The Japan-U.S. SII talks are negotiations striving for fair trade for both countries by removing trade impediments. In the latest Washington talks, the American side has thrust on Japan approximately 200 requests. It seems to me, however, that a real impediment which needs to be addressed is Japanese politics, or the politicians themselves.

Five years ago when the current balance surplus went up to an abnormal level of 3.6 percent relative to the GNP, Japan reached a turning point, and began to seek a change in conventional economic policy and people's lifestyles. In the following year, 1986, the "Maekawa" report was prepared as guidance for constructing an internationally open Japan based on the principal recognition that Japan cannot progress without such a change.

Has there been even one politician who has worked to put this Maekawa report in practice?

The Maekawa report listed the expansion of domestic demand as the most essential issue and recommended: (1) radical reform of housing policy to facilitate adding living space and construction of new bedroom suburbs, (2) reduction of income tax to spur individual consumption as well as reducing the annual total work hours to that equivalent to Europe and America (1,800 hours) and early and complete implementation of the 5-day work week system, (3) promotion of improved social capital for rural areas. This suggestion for "Reform of Japan," which incorporates conversion to an internationally harmonious industrial structure, more improved market access and promotion of manufactured imports, liberalization of financing, promotion of international cooperation, and contribution to the world economy corresponding to Japan's international status, etc.

These suggestions are the basis of the currently on-going Japan-U.S. SII talks. If the politicians had seriously grappled with implementation of the items suggested in the Maekawa report, Japan would not have been treated

as harshly as today. The politicians' remiss in this area is now haunting us, the people.

The United States is asking for repeal of the Large-Scale Retail Store Law. Such an unfair law should not be allowed. It can not be denied that this legislation obstructs the distribution channel for imported consumer goods. If Japan is rich, why don't we use available funds for urban social capital and international transportation? The United States points out that Japan's transportation infrastructure such as air freight facilities is insufficient and raises the distribution cost. Isn't this indeed true?

The Japanese people really want to live a rich and culturally fulfilling life. We work very hard, but before we can ever reach our goal we hear whispers about "the sun going down once more" and the "economy being at 4 o'clock in the afternoon." Such a ridiculous thing shouldn't be allowed to happen.

Reflecting on my own experience of living in the United States for five years during the 1960's, 1970's and 1980's, it is apparent that the life of the Japanese people is not comparable to life in the United States when housing and public facilities are taken into consideration. A cheap hotel in what was, 25 years ago, the poorest town in the United States, Laredo, Texas, had plenty of hot water for use. At that time, I was a boarder in a middle class home in Washington, D.C. I lived in a three-story house with a basement and central heating which could be temperature-regulated with one thermostat. We still don't enjoy that kind of luxury in Japan.

Presently, $200,000 or so will buy a detached house in a rich green neighborhood in a suburb of Washington, D.C. This gap in housing cost cannot be explained simply by saying that Japan has a small amount of land. I wonder if this kind of lifestyle is not possible in Japan mainly because of the of the land policy in Japan.

The reform objectives presented at the Japan-U.S. SII talks should originally have been pointed out domestically as a "Japan Reform Proposal" by the opposition parties in Japan. They should be a part of "the reform of the people's lifestyle," which the Japanese politicians should already have acted upon, without the need for "external pressure," in pursuit of an enriched standard of living.

* Former MITI Official Views SII Talks

902A0159A Tokyo SHUKAN ASAHI in Japanese 20 Apr 90 pp 24-26—FOR OFFICIAL USE ONLY

[Interview with Naohiro Amaya, former MITI Councilor, by Tomofumi Yamamoto: "Trade Friction: Labor Pains at the Birth of a United States of the World"; date and place not given]

[Text] The recent U.S.-Japan Structural Impediments Initiative [SII] talks have been called a "second coming" of Commodore Perry's "Black Ships." From a reading of interim reports on the conclusion of the talks, it appears that Japan once again cannot carry out domestic reforms without foreign pressure. Why is this so? Naohiro Amaya, a former MITI [Ministry of International Trade and Industry] negotiator and currently director of the General Telecommunications Research Facility, has the following comments on the "structure of the talks."

I believe that the U.S.-Japan SII talks can be more easily understood if they are compared to the relationship between Oda Nobunaga and Tokugawa Ieyasu. The alliance between these two feudal warlords lasted until the death of Nobunaga, for the relationship was of great benefit to both sides.

At the time Nobunaga was strong and Ieyasu was in a weak position. The legal wife of Ieyasu made a false accusation against Nobunaga, suspecting him of plotting treason in Tsukiyama palace, and urged Ieyasu to "destroy Tsukiyama palace and kill his eldest son, Nobuyasu." Nobunaga demanded an improvement in the framework of the alliance by coercing Ieyasu into taking a "pledge of undying loyalty" to Nobunaga.

In torment, Ieyasu went without sleep for three days and three nights. If he rejected this unreasonable demand the alliance would be ruptured. Should he plot against Nobunaga, or look after his own interests? Eventually, Ieyasu gave in to Nobunaga's demand. Had Ieyasu rejected Nobunaga's demand, the alliance would have been ruptured. If that had happened, I do not believe that Ieyasu would have been able to unify Japan under his rule.

This time, America put Japan on the spot. However, since its demands were not unreasonable like Nobunaga's, Japan was able to meet them without three sleepless nights!

The U.S. demands were reasonable. Pressure for reform of these sectors of the economy should have come from the home front before the talks started. But this domestic pressure was not adequate. Pressure for reform had to come from the United States. Because of this, there was domestic resistance to these outside demands. The Japanese reacted against the American proposals by saying, "Let's drive a hard bargain." This reaction has forced many Americans to conclude that Japan has neither a trade philosophy nor a trade strategy.

Why can't Japan seem to carry out domestic reforms on its own? In thinking about this, I believe that it is important to look back at the post-war period of recovery. Rising from the ashes, it was a period of poverty in which it is said 10 million people may have starved to death.

Consumption was placed on hold, and the implementation of a policy of industrial recovery was given primacy. Because the role of the administration was to promote the recovery of industry, influence from the manufacturing segment of the economy became entrenched in the system. Today, the Ministry of Construction looks after

the well-being of the construction industry, and the Ministry of Agriculture, Forestry and Fisheries [MAFF] looks after the well-being of agriculture. As a result, these agencies exercise no jurisdiction except over their particular industry. I wonder if this type of administration can be abandoned at this point.

Japan: A Rowing Team Without a Coxswain

First of all, what about politics? The primary role of politics is to make decisions on the overall course of a nation. If we may use the analogy of a shell, the various ministry officials comprise the rowing team and the politician is the coxswain. But the Japanese rowing team has no coxswain. The coxswain has taken hold of an oar, and is rowing himself. The various ministry officials gather in the Diet as representatives of different constituencies: construction, the postal system, agriculture, etc. In the Diet, they defend their own interests. "How will my constituent industries be supported by this budget?"

The MAFF minister thinks of nothing else but how he can act for the benefit of businesses in agriculture and commercial fishing. There seems to be no politician fitted with a wide lens.

The current era is very different from the period of reconstruction. This is an era in which we should be taking a serious look at how deeply rooted these vested interests are. Instead, the opposite is occurring. This is evident in government land policy, and in a government agriculture policy which says, "We will not import even a single grain of rice." In some places, a six-by-six-foot piece of land sells for more than 100 million yen. This rise in land prices was not the work of landowners. Only state and private investment in land has risen. Despite this, each and every one of them is bent on making a fortune.

I think that root of the problem with land is that the rights of ownership, found in Article 29 of the Constitution (property rights), are too zealously defended. Because the text of the article states that the right to own property is unconditionally supported by the will of the people, they hold out stubbornly for higher land prices. Government control over land prices is extremely weak, as politicians pretend to be blind to the problem. If domestic pressure cannot bring about any reform, what chance does foreign pressure from the United States have at changing anything? If domestic consumers demand that the Large-Scale Retail Store Act be amended, small shop owners will probably vehemently oppose the measure because it would cut into their profits. Settling a dispute between consumers and small shop owners would be difficult. However, add to this American demands, and a dispute over the paltry profits of small shop owners becomes a trade dispute with America over the fate of the nation. In my opinion, the Large-Scale Retail Store Act is a hotbed of evil spirits. Speculation, threats, deals, the buying up of land, and other such shady practices will ensue.

A U.S.-Japan Rupture: the Height of Foolishness

Many people say that bullying the weak is disgraceful, but newly introduced car models are often unsuccessful. This is the result of free competition. Because quite a few consumers prefer Mom-and-Pop stores to supermarkets, these stores are probably not in a weak position like a new car model. Therefore consumers should be able to choose where they want to shop.

In the United States, the get-tough-with-Japan faction is growing stronger. Because of pressure from these quarters, I believe that the U.S. Government is using the structural trade talks as a kind of tranquilizer.

For the time being, Japan has put up with U.S. demands for exactly this reason. However, demands for structural reform will probably continue. Will an increase in demands requiring a lot of patience lead to a rupture in U.S.-Japan relations? Japan has two paths it could take. A rupture in relations would be the height of folly. Whatever Japan decides to do, this would be the worst possible choice it could make.

There appear to be some people who hold the brave opinion that Japan no longer needs the United States and that the United States no longer needs Japan. But if you ask me, they have strayed from reality. If the United States and Japan go their separate ways, the Japanese and American people will experience a great many losses. Because both governments understand this, I do not think that a rupture in relations will come to pass.

I believe that the 21st century will be the "Century of Structural Talks"! When people marry and settle down, structural talks become a necessity. Except, of course, in the unfortunate case of divorce.

The relationship between countries is similar. With people, goods, money, and information flowing freely across national borders, structural coordination becomes a necessity. Currently, the 12 nations of the European Community are carrying out large-scale structural coordination. Japan is involved in structural trade talks not only with the United States, but also with Europe and countries such as South Korea. Perhaps in 100 years global integration will not be limited to business.

The meaning of all this is clear. The current awkwardness of U.S.-Japanese relations should be seen as labor pains at the birth of a United States of the World.

Many people will think that such speculation is foolish, but 100 years ago Japan was a loose confederation of more than 200 feudal clans. The outside world viewed these feudal fiefs as an independent nation, but coming and going between these clan-holdings was difficult. Looking at how far these Japanese fiefdoms have come in a century, it is hardly more surprising to envision an integrated world 100 years from now.

Since the war, Japan hasn't been concerned about how it appears to the outside world. It has single-mindedly sought after wealth. This is because Japan is a nation of

villagers. When Japan was poor this mentality was forgivable. However, Japan is no longer poor. It should pursue values beyond making money, but unfortunately it has not. In other words, it is not clear to the Japanese what constitutes true national wealth.

America as Japan's Opposition Party

Japan must set about reforming government practices. The splintered Diet needs a consumer committee, and a freedom committee. These committees would counteract efforts to uphold the Staple Food Control Act and the Large-Scale Retail Store Act in the name of "freedom." In addition, the electoral system should be a direct representational system based on both large and small electoral districts. We should also reexamine how the Diet should conduct the affairs of state. I'd like to give a quiz to all dietmembers, though I already know how they will respond: there would hardly be a debate.

In England, when a member of the opposition asks an odd question, Mrs. Thatcher retorts, "Your reasoning is unsound." A heated war of words ensues with the party in power. Persons without ability do not fill government posts. However, in Japan, if a member of the Diet asks a question, a cabinet member reads a written response prepared a day earlier by a government official. There is no confrontation with the ruling party. There is no debate. Consultation and rejection are only achieved by a boycott of debate. Is this a fitting procedure for the highest official organ in the nation?

I believe that the United States acts as the opposition party in Japan. How do we deal with this unfortunate state of affairs? I propose a three-point plan.

First, we should examine the behavior of Japan by illuminating it with "freedom, democracy, and justice." Secondly, we should look at the commonsense practices in other world democracies and see whether or not the Japanese system deviates from these. Thirdly, we should determine whether or not the well-being of the nation and the well-being of certain special interests are being confused. I am alarmed that the well-being of special interests has come at the expense of the overall well-being of the nation. I am not saying that it is no good to look after the well-being of these special interests, but we must make sure that overprotection of these interests does not imperil the nation as a whole.

* Need for MAFF To Adapt to Environment Seen

902A0158A Tokyo KANKAI in Japanese
May 90 pp 54-63—FOR OFFICIAL USE ONLY

[Article by KANKAI Editorial Staff writers]

[Text] **Former Capitalist on Decline**

The Ministry of Finance is still an active capitalist, the Ministry of International Trade and Industry [MITI] is an upstart which achieved wealth through eloquence and efficiency while the Ministry of Agriculture, Forestry and Fisheries [MAFF] is a former capitalist now on the decline—this was the comment of a person concerning the current status of the three large economic agencies. The expression is rather coarse but it clearly depicts a certain aspect of these agencies' distinguishing features.

With its huge budget, firmly established adminstrative authority and powerful organization, the MAFF has flaunted its proud existence for many years. However, unable to cope agilely with the big structural changes being forced upon it, the MAFF is gradually losing its power. In spite of that, many of the MAFF bureaucrats are still clinging to administrative functions performed under the old framework. It cannot be denied that among the populace, this is the image that has been emerging of the MAFF.

It is a fact that as seen from the outside, the MAFF appears to be changing its course at too leisurely a pace to meet changes in the environment surrounding agriculture. It appears as though they are clinging to the old framework. Taking the example of the Staple Food Control Act, it seems that because it possesses powerful authority, it is trying all the harder to stick to the old system.

On looking back at the past several years, it is true that a very difficult period has continued for the MAFF. During the past several years, which have been considered "a significant transition period," the MAFF has tried a number of times to drastically change its administrative course to meet the environmental changes in agriculture. Subsequently, however, powerful forces have worked to push back the changes and on each occasion, it was forced to reverse its policies. Because of such setbacks, outsiders are inclined to think that policy changes are not proceeding fast enough.

As compared with the MITI administration, policy changes and reforms are difficult to carry out in the MAFF administration probably because of the characteristics of agricultural, forestry and fishery industries. The banking administration of the Finance Ministry was called the "escorted convoy method" in the past (that system still remains today). Needless to say, that is an administrative method whereby fast ships are made to sail at the same speed as slow ships. In a sense, the escorted convoy system constitutes one facet of the agricultural administration. Moreover, in the case of banking administration, the slower ships can be likened to reasonably large ships powered with engines. However, in the case of agricultural administration, the slower ships might include rowboats.

It might be said that therein lies the difficulty of managing agricultural administration. In the case of agriculture, where only small boats which easily capsize if hit by moderate waves are milling around, bold navigational maneuvers cannot be undertaken at a moment's notice. Boats must be rebuilt so that they can ride out moderately rough waves—the MAFF bureaucrats, who are being pressured to change agricultural administration, must start, first of all, with this task.

Signs of Changes Seen in MAFF Bureaucrats

It is said that, "Everyone can talk about agriculture but only a few really understand agriculture." Many persons talk about agriculture and it appears that criticizing agriculture and agricultural administration has even become a popular trend. However, among the persons who talk about agriculture, how many actually realize the fact that there are boats which would sink if hit even by small waves and that agricultural reforms must start with the reconstruction of those boats? It is not an exaggeration to say that the real worries of the MAFF bureaucrats are rooted in the complications of the public opinion environment surrounding agriculture.

However, noticeable signs of changes have begun to appear in the MAFF bureaucrats who have been perched "at the turning point" and suffered for a long period. One of the signs can be seen in the resistant attitude toward the politician's statement that, "not even a grain of rice will be imported." Even with respect to persons who advocate agricultural reforms, there are many instances where the reform is used only as a political tool. That tendency became more pronounced during the last lower house election. Since "distrust in agricultural administration" was given as one of the causes of LDP's crushing defeat in the upper house election, practically all members of both government and opposition parties turned suddenly into agricultural protectionists. There was a rare and courageous "irregular statement" by a member of the cabinet (at the time) but immediately before the election, those advocating rice liberalization, including commentators, clammed up all at once. In fact, an extreme statement directed toward the election that, "not even a grain of rice will be imported," even cropped up.

For the MAFF bureaucrats, this statement was extremely troublesome. It would not only create many problems externally but even domestically, it was evident that it would invite public opposition. Above all, it would be logically inconsistent. That is because, in reality, importation of some rice had been approved as an exceptional measure. From the standpoint of food security for the people, the MAFF bureaucrats could not willingly abide such a statement even if it were the minister who stated resolutely, "do not import even a grain."

Regarding this statement, since it was made by the then MAFF minister,the agency's officials could not say it openly but they have all insisted privately that they never said, "we will never 'import even a grain.'" In the past, they might not have gone so far as to say, "we'll follow the decision not to import even a grain," but it can be assumed with reasonable certainty that they would have somehow glossed over such statements for political reasons. However, on this recent occasion, a posture of resistance toward illogical statements was clearly discernible in their underlying intentions.

Moreover, another point which should be watched as an indication of changes in the MAFF bureaucrats is that, though in a small way, they have begun to turn their eyes to consumers. Agricultural, forestry and fishery products are basically necessary for our livelihood. For that reason, for a long period up until the present, it was only necessary to concentrate on the production of agricultural products. In agricultural administration, the emphasis was placed on how to assure production volumes. Even today, a section of the agricultural administration is still devoted wholly to the procurement of required volumes.

Meanwhile, because of the rice surplus which has continued for a considerably lengthy period, increases in agricultural imports from overseas and environmental changes, such as the development of sophisticated and gourmet tastes in foodstuff accompanying the affluency in people's livelihood, the idea that agricultural production, too, should consider what consumers desire has emerged among the MAFF bureaucrats. In the field of industrial products, the movement to identify consumer needs is a rather old one. However, in the agricultural sector, this concept has begun to spread only recently. That is especially true of the MAFF.

For example, there is a consumers' room in the ministry's home office in Kasumigaseki, but in the past, this was simply an exhibition room of products (farm products and their processed goods). At present, however, the room is also being used to search out tastes of consumers who visit. With regard to agricultural policies, too, in agricultural structure reform projects, which is one of the most difficult fields for consumers and non-farmers to understand, the concept of promoting software, such as production know-how, has been added to the hardware project of converting farm lands and in the software approach, an epochal method for the MAFF bureaucrats had been adopted, i.e., permitting the participation of persons outside of the agricultural field. The plan is to reflect consumers' wishes even in structural reforms to be undertaken by farming villages which are to become the food production sites.

"GATT Shift"

As the agricultural negotiations of the Uruguay Round (multilateral trade negotiations) of GATT comes to a close, a series of leadership changes, called the "GATT shift," have taken place in the MAFF. One of them is the appointment of a new minister and two parliamentary vice ministers. First, from the House of Councillors, Tomio Yamamoto was appointed the minister for the first time. He was selected to this important position on the basis of his coordination skills shown as chairman of the LDP's Diet Policy Committee in the House of Councillors where government and opposition majorities had been reversed. Regarding the statement, "not even a grain of rice will be imported," which was used for election purposes, he made a revision, immediately after assuming office, that, "to be frank, the expression, 'not to import even a grain,' is inappropriate and hereafter, the policy of 'self-sufficiency' will be followed," and put the MAFF officials at ease.

The parliamentary vice minister for the lower house is Chikara Higashi, who is influential as an internationalist. With three election victories under his belt, he no longer acts as a "maverick" and is devoting his attention to constructive activities, saying, "Nothing happens even if I venture something new. What I have to do now is turn the current trend into a significant movement." However, his latent energy and unparalleled contacts among Americans are expected to exert powerful influences in future negotiations.

Seijiro Otsuka, the parliamentary vice minister for the upper house, is an expert on agriculture and agricultural administration who also holds the position of the president of the central council of Saga Prefecture Agricultural Cooperatives Association. He is said to be the ideal person to conduct liaison with agricultural, forestry and fishery organizations, including agricultural cooperative associations. It can be said that Minister Yamamoto, Parliamentary Vice Minister Higashi and Parliamentary Vice Minister Otsuka constitute the most competent combination to handle agricultural administration which will undoubtedly become more difficult in the future.

Vice Minister Hirohisa Tanaka (entered the ministry in 1956; graduate of Tokyo University Law School) was appointed in July 1989 as successor to Yasuo Goto (entered the ministry in 1956; graduate of Tokyo University School of Economics). He has served as: chief of the Sugar Division, Food and Marketing Bureau; deputy chief of Agricultural Affairs Department, Hokkaido; chief of Agricultural Administration Division, Agricultural Administration Department, Agricultural Structure Improvement Bureau; chief of Budget Division, Minister's Secretariat; director of Management Department, Food Agency; Secretariat councilor to Economic Affairs Bureau; director of Minister's Secretariat; director general of Forestry Agency; and, director general of Fisheries Agency. He makes reporters laugh by joking that, "I like reporters and rice," and has wide contacts with the mass media. He makes straightforward statements and is the type of person liked by reporters. Even more than his contacts with the mass media, he is widely known in political and industrial circles, not to mention the bureaucracy. Many in other agencies also rate Tanaka highly.

As indicated by his statement, "I like rice," he is very devoted to his duties. During his days as Budget Division chief and Management Department director, and later, as general affairs councilor and Secretariat director, he kept in close touch with concerned authorities in order to implement agency policies. Also, during his days as Forestry Agency director general, immediately upon assuming office, he moved randomly about the agency and in the evening, he drank together with the younger officials. Since it was his first assignment to the Forestry Agency, he wanted to confirm the existing situation with his own eyes. There are many young bureaucrats who are impressed with Tanaka's attitude and they have become a strong force to support his task after Tanaka became the vice minister.

Immediately after becoming the vice minister, Tanaka made his colleagues laugh by saying, "I had the privilege of serving as the director general of Forestry and Fisheries Agencies but a friend, who read in the newspaper about my appointment as vice minister, was sincerely concerned that, 'since you were demoted from director general to vice minister, did you do anything wrong?'" This incident is talked about as another indication of Tanaka's frank relationships with a wide range of acquaintances.

However, when it comes to work, it is a different story. He shows flexibility in his statement that, "After engaging for a long while in a conservative endeavor called a primary industry, I feel that I, myself, am becoming conservative. Since there are problems which can be dealt with only through human efforts and intelligence, I believe that there should be cases which we can handle with more discretion." On the other hand, he is consistent in his argument that, "When the role or status of paddy fields in the Japanese domain is considered from a total national perspective, basic racial feelings exist of wanting to preserve them. However, that does not mean that we should not rationalize or that we should leave them alone." Even after becoming the vice minister, he is aggressive in accepting the new ideas of young persons but he is still very critical about such basic matters as trying to ascertain the basic concepts on which the ideas are based.

Two Competitors for Postion of Vice Minister

Of the group which entered the ministry in the year after Tanaka, the only one remaining is Shigeru Motai, director general of the Forestry Agency (entered the ministry in 1957; graduate of Tokyo University Law School). He assumed his present position in July 1989 after serving as: chief of Meat and Egg Division, Livestock Industry Bureau; chief of Administration Division, Livestock Industry Bureau; chief of Personnel Division, Minister's Secretariat; deputy director general of Forestry Agency; director of Minister's Secretariat; and, director general of Food Agency. Traditionally, the Forestry Agency position was filled by technical experts. However, since deficits increased and reform was considered necessary, administrative officials were appointed and Kenichi Kakudo and Hirohisa Tanaka have served, respectively, in this position. The situation involving wood products is harsh, as heretofore, but as a result of the long years of efforts, plans can now be formulated to cope with the coming age of domestically produced lumber. With Motai as director general, the forestry industry is about to undergo big changes.

Motai is an affable person and is highly rated in the ministry and Diet circles. Also, when he was with the Food Agency, his sincere attitude in handling food administration reforms and rice prices was highly valued by his superiors.

The position of director general of agencies and bureaus is held mainly by those entering the ministry in 1958 and 1959 and both years have provided many leaders.

Those entering the ministry in 1958 include: Akio Kyoya, Fisheries Agency director general; Yoshihiro Hamaguchi, Food Agency director general; Mitsuharu Matsuyasma, Agricultural Production Bureau director; and Hiroshi Washino, Food and Marketing Bureau director.

Akio Kyoya, Fisheries Agency director general (graduate of Tokyo University Law School), assumed his present position after serving as: chief of Accounting Division, Management Department, Forestry Agency; chief of Meat and Egg Division, Livestock Industry Bureau; chief of Budget Division, Minister's Secretariat; councilor of Agricultural Production Bureau; director of Oceanic Fisheries Department, Fisheries Agency; and director of Livestock Industry Bureau. His activities as the Fisheries Agency's Oceanic Fisheries Department director are still fresh in people's memories. Kyoya was appointed to that position in August 1985. The Japanese-Soviet fishery relations, which is the biggest problem in the Fisheries Agency's administration, was at a significant turning point and Japan was being pressured with rather severe conditions. The concept of the 200-mile fishing zone had become firmly fixed in the world and the Soviet Union, too, began to strengthen its claims on fishing in the 200-mile zone and on fish, such as salmon and trout, which return to their spawning grounds. Kyoya was appointed to the position, under such circumstances, and he was selected to lay new tracks for Japan's northern sea fishery, together with the then Fisheries Agency director general, Hiroya Sano (entered the ministry in 1954; now retired).

At the time, Kyoya surprised his colleagues by showing the boldness to open new doors in the conduct of Japanese-Soviet fishery negotiations but at times, he demonstrated his meticulousness in taking great pains on rather small details.

Yoshihiro Hamaguchi, Food Agency director general (graduate of Tokyo University Law School), assumed his present position after serving as: chief of Finance Division, Economic Affairs Bureau; chief of Administration Division, Forestry Agency; chief of Administration Division, Minister's Secretariat; chief of Personnel Division, Minister's Secretariat; director of Administration Department, Forestry Agency; director of Agricultural Production Bureau; and director of Minister's Secretariat. At first glance, he appears in contrast to Kyoya in that he shows a gentleness of manner. However, he also displays boldness in his actions and he is well known for having taken drastic measures forcibly against the black-market rice problem of Ogata village, Akita Prefecture. Ministry personnel believe, however, that no matter what had happened as a result of his drastic actions, he had been fully prepared to cope with the problems. Together with Kyoya, he is one of the future leaders of the MAFF and it is said that ultimately, it will be a race between these two for the vice ministerial position.

Mitsuharu Matsuyama, Agricultural Production Bureau director (graduate of Tokyo University Law School), has served as: chief of Agriculture, Forestry and Fisheries Department, Ibaragi Prefecture; chief of Policy Division, Management Department, Food Agency; chief of Administration Division, Livestock Industry Bureau, chief of Administration Division, Minister's Secretariat; director of Management Department, Food Agency; director of Statistics and Information Department, Statistics Bureau; and director of Agricultural Structure Improvement Bureau. It is reported that whatever position he holds, he envisions the future objectives of his tasks and works single-mindedly toward those goals.

Hiroshi Washino, Food and Marketing Bureau director (graduate of Tokyo University Law School), has served as: chief of Agricultural Administration Department, Gumma Prefecture; chief of Planning and Policy Division, Administration Department, Forestry Agency; chief of Policy Division, Food and Marketing Bureau; chief of Administration Division of said bureau; chief of Legal Affairs Division, Minister's Secretariat; director of Fisheries Promotion Department, Fisheries Agency; director of Fisheries Administration Department, Fisheries Agency; and, director of Agricultural Administration Bureau, Kanto District. At present, he is considered the ministry's outstanding theoretician on food industry problems. For the MAFF, the developmentof food industry policies is regarded as one of the important tasks for the future. Development of such policies is required not only to expand promotional measures of the food industry but to vitalize agriculture which provides raw materials to the industry. Because of that, great expectations are being placed on Washino's experiences and knowledge.

Two Promising Officials From Kagawa Prefecture

Officials who entered the ministry in 1959 include: Mitsutoshi Iwasaki Livestock Industry Bureau director, Hisao Katagiri, Agricultural Structure Improvement Bureau director; Jiro Shiwaku, agriculture, forestry and fisheries councilor; and, Toshihiko Tsuruoka, Minister's Secretariat director.

Mitsutoshi Iwasaki Livestock Industry Bureau director (graduate of Tokyo University Law School), assumed his present position after serving as: chief of Accounting Division, National Forest Management Department, Forestry Agency; chief of Sugar Division, Food and Marketing Bureau; chief of Accounting Division, Minister's Secretariat; chief of Administration Division, Minister's Secretariat; director of National Forest General Affairs Department, Forestry Agency; director of Statistics and Information Department, Economic Affairs Bureau; and,director of Water Quality Bureau, Environment Agency. With a sociable and thoughtful personality, he has the trust of his subordinates in the ministry.

Hisao Katagiri, Agricultural Structure Improvement Bureau director (graduate of Tokyo University School of Liberal Arts), has served as: chief of International Affairs Division, Fisheries Agency; chief of Regional Planning Division, Agricultural Structure Improvement Bureau; chief of Administration Division, Economic Affairs Bureau; chief of Legal Affairs Division, Minister's Secretariat; deputy director of Land Bureau, National Land agency; and, director of Land Bureau. When he was serving as the Fisheries Agency's International Affairs Division chief, claims on the 200-mile zone began to be asserted. Experiences he gained as a front-line division chief, at the start of the new fishery age, should prove to be valuable.

Jiro Shiwaku, agriculture, forestry and fisheries councilor (graduate of Tokyo University Law School), is regarded as a leading internationalist in the MAFF, which is entering the age of internationalization. The fact that he is a logician, who bases his reasoning on forecasts of what might happen several years hence, enables him to develop a safe approach to handling of international problems and conduct of international negotiations. He is not too ambitious and likes fishing so he has been telling close friends that they should establish a "pleasure fishing division" and that "he would not mind working in this area." However, he has advanced rapidly from International Affairs Division chief to Economic Affairs Bureau director and now to agriculture, forestry and fisheries councilor and is said to be in line to be the vice minister in charge of external affairs.

As mentioned earlier, a so-called "GATT shift" was made in the MAFF personnel with the conclusion of GATT's Uruguay Round negotiations expected shortly. The appointment of Shiwaku as agriculture, forestry and fisheries councilor is one of the personnel shifts. Shiwaku served as Economic Affairs Bureau director under his predecessor, Hidero Maki (entered the ministry in 1957; now retired), and while Maki was the type of official who acted rather cautiously, Shiwaku is said to be rather bold in his actions. However, many recognize that his boldness is backed by a shrewd power of observation as well as ability and perseverance developed through diligent work.

Minister's Secretariat director Toshihiko Tsuruoka (graduate of Tokyo University Law School), who entered the ministry in the same year as Shiwaku and who also hails from Kagawa Prefecture, assumed his present position after serving as: chief of Planning Division, Fisheries Administration Department, Fisheries Agency; chief of Meat and Egg Division, Livestock Industry Bureau; chief of Administration Division, Livestock Industry Bureau; chief of Budget Division, Minister's Secretariat; director of Fisheries Administration Department, Fisheries Agency; and, general affairs councilor, Minister's Secretariat. He is quiet, but he is trusted as a person who will not fail to do what must be done when the occasion arises and he has many followers, both inside and outside of the ministry. He is one of the officials already reputed to be one of the strong candidates for the vice ministerial position.

Takao Anbashi (graduate of Tokyo University Law School), who is on detached duty to the Environment Agency as the Water Quality Bureau director, is a member of the group entering the ministry in 1960. He has served as: chief of Forest Cooperatives Division, Forestry Agency; chief of Administration Division, Livestock Industry Bureau; chief of Personnel Division, Minister's Secretariat; director of Administration Department, Forestry Agency; and, director of Agricultural Administration Department, Agricultural Structure Improvement Bureau. He is a mild-mannerd and considerate person. Since there is an agreement between the MAFF and the Environment Agency that the person leaving the position in which Anbashi is serving will not be retired, he is expected to return to the MAFF, like his predecessor, Livestock Industry Bureau director Iwasaki, and assume one of the bureau director's positions.

Kenichi Unno, Statistics and Information Department director (graduate of Tokyo University Law School), served previously as: chief of Insurance Division, Economic Affairs Bureau; chief of Milk and Dairy Products Division, Livestock Industry Bureau; chief of Agricultural Administration Division, Agricultural Structure Improvement Bureau; chief of Administration Division, Fisheries Agency; and, director of Oceanic Fisheries Department of the said agency. The Statistics and Information Department has a long history in the ministry. The director participates in ministerial-level conferences. Family-operatedenterprises are overwhelmingly numerous in the agricultural, forestry and fishery industries and actual conditions are extremely difficult to grasp as compared with other industrial sectors. Furthermore, while future reforms in these industries will make it increasingly difficult to learn the true conditions, the necessity of doing so will become even more urgent. The importance of the department will continue to increase and expectations are being placed on Unno's ability.

Junji Kawai, Economic Affairs Bureau director (graduate of Tokyo University Law School), was shifted from the position of general affairs councilor in the Minister's Secretariat to the present position, together with the promotion of Shiwaku to agriculture, forestry and fisheries councilor. It is said to be part of the personnel shifts aimed at the GATT's Uruguay Round. Important positions in which she has served include: chief of Planning and Policy Division, Administration Department, Forestry Agency; chief of Policy Division, Agricultural Production Bureau; chief of Administration Division of said bureau; chief of Planning Office, Minister's Secretariat; Agricultural Production Bureau councilor; and, director of Fisheries Administration Department, Fisheries Agency. He has wide experiences in the planning field and is known for his dedicated work performance.

Katsuzo Kawamura, director of Agricultural Administration Department, Kanto District (graduate of Kyoto

University Law School), has served in the following positions: chief of Budget Division, Food Agency; chief of Land Use Coordination Division, National Land Agency; chief of Planning and Policy Division, Administration Department, Forestry Agency; chief of Administration Division, Economic Affairs Bureau; chief of Administration Division, Minister's Secretariat; director of Management Department, Food Agency; and, director of Administration Department, Forestry Agency.

Many Important Officials among 1961-64 Entrants

Among the officials who entered the ministry in 1961 are the following: Toshio Takechi (graduate of Ehime University Law School), who is holding the position of councilor to the Livestock Industry Bureau, after having served as chief of Administration Division, Livestock Industry Bureau, and director of Fisheries Promotion Department, Fisheries Agency; Toshiro Kuroki (graduate of Kyoto University Law School), who became the director of Fisheries Administration Department, Fisheries Agency, after having served as: chief of General Affairs Division, National Forest General Affairs Department, Forestry Agency; chief of Administration Division, Economic Affairs Bureau; chief of Administration Division, Minister's Secretariat; and, director of National Forest General Affairs Department, Forestry Agency; and Kumao Baba, Food Agency's Management Department director (graduate of Tokyo University Law School), who served previously as director of Agricultural Administration Department, Fukuoka Prefecture, and later as chief of Policy Division, Management Department, Food Agency; chief of Administration Division, Administration Department, Forestry Agency; and, chief of Personnel Division, Minister's Secretariat.

The group that entered the ministry in 1962 also provided many capable officials. Hiroshi Ueno (graduate of Tokyo University Law School) was promoted to general affairs councilor in the Minister's Secretariat, together with the emergence of Shiwaku as agriculture, forestry and fisheries councilor, after having served as: chief of International Economic Affairs Division, International Affairs Department, Economic Affairs Bureau; chief of Fisheries Cooperatives Division, Fisheries Administration Department, Fisheries Agency; chief of Budget Division, Minister's Secretariat; and, director of International Affairs Department, Economic Affairs Bureau. It is reported that he was given the domestic role in the "GATT shift."

In addition, among the 1962 entrants who became prominent, there is Harumasa Akaboya, director of Fisheries Agency's Oceanic Fisheries Department (graduate of Tokyo University Law School), who has served as: chief of Seeds and Seedlings Division, Agricultural Production Bureau; chief of International Trade and Tariff Division, International Affairs Department, Economic Affairs Bureau; chief of Wholesale Market Division, Food and Marketing Bureau; chief of Agricultural Administration Department, Fukuoka Prefecture; chief of Administration Division, Agricultural Production Bureau; and, councilor of Agricultural Production Bureau.

Many capable officials also emerged from the group entering the ministry in 1963, including the following: So Akagi, director of Kyushu Agricultural Administration Bureau (graduate of Tokyo University Law School); Hajimu Irisawa, director of Administration Department, Forestry Agency (graduate of Tokyo University Law School); Masayuki Takahashi, chief of Personnel Division, Minister's Secretariat (graduate of Tokyo University Law School); Hajime Chatani, director of Fisheries Promotion Department, Fisheries Agency (graduate of Tokyo University Law School); Takeki Manabe, chief of Planning Office, Minister's Secretariat (graduate of Tokyo University Law School); and, Hiromasa Yoneda, director of National Forest General Affairs Department, Forestry Agency (graduate of Kyoto University Law School).

After serving as Aomori Prefecture's Agricultural Administration Department head, Akagi held the following positions before assuming his present post of Kyushu Agricultural Administration Bureau director: chief of Operation Planning Division, Food Agency; chief of Planning and Policy Division, Administration Department, Forestry Agency; chief of Finance Division, Economic Affairs Bureau; and, chief of Administration Division, Minister's Secretariat. His assignment outside of the ministry was based on a decision to dispatch a highly capable person to energize the Kyushu Agricultural Administration Bureau and he is expected to return to the ministry to become a bureau director.

Before assuming his present position, Irisawa served as: chief of Processing Industry Division, Food and Marketing Bureau; Cabinet councilor; chief of Coastal Fisheries Division, Fisheries Promotion Department, Fisheries Agency; chief of Agricultural Administration Division, Agricultural Administration Department, Agricultural Structure Improvement Bureau; and, chief of Planning Office, Minister's Secretariat. When he was the Planning Office chief, he formulated long-range plans for agriculture, forestry and fisheries industries. He studies diligently and is dedicated to his work.

Takahashi served as deputy director and later, as director of Hokkaido Agricultural Affairs Department before returning to the ministry and assumed his present position after having served as: chief of Processing Industry Division, Food and Marketing Bureau; and, chief of Administration Division, Fisheries Administration Department, Fisheries Agency.

Manabe served a tour in Geneva and was appointed to his present position after serving as: chief of International Affairs Division, Oceanic Fisheries Department, Fisheries Agency; chief of Finance Division, Economic Affairs Bureau; and, chief of Administration Division, Administration Department, Forestry Agency. Utilizing his experiences of overseas service, he is aggressively

tackling a wide range of problems from domestic and foreign price differentials to rice liberalization. All of the above-mentioned officials have the capability to compete in the race to become the future vice minister and the advancement potentials of the 1963 group are said to be very promising.

Likewise, the 1964 entrants into the ministry are reputed to constitute a group with many potential leaders.

Hisao Azuma (Higashi) (graduate of Tokyo University Law School), was promoted from chief of Budget Division, Minister's Secretariat, to chief of International Affairs Department, Economic Affairs Bureau, as a key personnel in the "GATT shift." He has served as councilor in the Japanese Embassy in the United States and is highly valued for his international expertise. He is also a theoretician.

Eisuke Hinode, chief of Legal Affairs Division, Minister's Secretariat (graduate of Tohoku University Law School), was given high marks for his rice policies during his days as chief of Policy Division, Management Department, Food Agency.

Michio Shimada, chief of Administration Division, Minister's Secretariat (graduate of Keio University Law School), has served as: chief of Planning Division, Fisheries Administration Department, Fisheries Agency; chief of Horse Race Supervision Division, Livestock Industry Bureau; chief of Agricultural Cooperative Division, Economic Affairs Bureau; and, chief of Administration Division, Economic Affairs Bureau.

Facing a Turbulent Period

"The shipment volume of agricultural products amounts to Y11 trillion, and foodstuff, Y58 trillion. There are no other markets as large as these." "Even Sony did not know how to grasp consumers' needs during its days as Tokyo Tsushin Kogyo Co." "Recent debates over agricultural policies have served to deepen the understanding of the people about agriculture. There is no one now who says that agriculture is not needed in Japan." Recently, the MAFF bureaucrats (including the "old-boys") have begun to make these encouraging statements which were never heard before.

Of course, in the years to come, the MAFF will have to endure turbulence and hardships such as it has never experienced in its long history. It will not be easy to tide over the difficulties. However, with human beings as with organizations, when the difficulties become extreme, a certain sense of determination seems to emerge.

At any rate, to withstand the harsh foreign pressure being exerted, principally by the United States, the MAFF has started looking for bureaucrats with an international awareness. To cope with internal pressure, which is even more troublesome than foreign pressure, many of the MAFF bureaucrats, who had been inclined to seclude themselves in their own world, are beginning to direct their attention to a world outside of their own.

Among the persons who entered the ministry soon after the termination of World War II, there are many who were impressed by the agricultural land reform carried out by the United States through exercise of its powerful authority and who decided to become involved in agricultural administration.

For Japan, at the time, the agricultural land reform was a measure which bestowed a vital interest in land to many citizens. Impressed MAFF officials, who were young then, must have watched this big trend after Japan's defeat in the war.

Now, Japan is again the target of strong U.S. pressure. From only the standpoint of agricultural policies, neither the United States nor the European nations can blame Japan alone. Be that as it may, the international economic situation does not permit any suggestion for maintaining the status quo.

The past agricultural land reform vitalized agricultural production which formed the foundation of our economic society. In countries where ownership of agricultural lands by farmers is not recognized (Communist bloc or countries where large landowners have intensive holdings), agricultural production continues to remain sluggish and a drag on economic activities so Japanese land reform was of incalculable value. The vitalization of agriculture and farming villages during that period became the headspring of our country's high rate of economic growth.

However, that booming economic growth is now threatening the foundation of agricultural existence. In other words, it means that Japan's agriculture and agricultural administration, which were firmly established during the golden age after the agricultural land reform, are now at a big turning point. It also means that agriculture and agricultural administration problems are important issues which cannot be looked upon indifferently by the nationa' populace.

It appears that bureaucrats of the MAFF, which was said to be a "capitalist on the decline," are finally rising to establish new policies, while being subjected to heavy criticisms.

Other Countries

Normalizing Japan-China Economic Ties Viewed

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[Text] The Tiananmen Square massacre, which marks its first anniversary on Monday, caused a major setback to the economic activities of Japanese businesses. At this stage, while they search for a foothold that will enable

them to invest in China, they are struggling due to the stranglehold the Chinese government has on the economy.

But with no end to the ban on monetary loans to China anywhere in sight, it will be some time before China and Japan can normalize their economic relations.

Yen Loans

The Chinese government eagerly awaits the lowering of a ban on Japan's third yen loan program, and understandably so, since the program calls for 810 billion yen over a five-year period starting in 1990. In addition, Overseas Development assistance to China in 1987 set Japan well above the level of other nations in the world, with a 64.3 percent share.

If the Japanese government had its way, it would lift the ban as soon as possible so as to spare China the pain of its plummeting economy. But outside pressure is urging Japan to persist with the severe stance adopted by the industrialized countries of the West, particularly the United States.

Even Finance Minister Ryutaro Hashimoto, who at one time very aggressively supported lifting the ban on yen loans, has once again had to harden his position on the matter.

The Foreign Ministry intends to call on its partners prior to the July summit of industrialized nations in hopes that by that time they will agree to reinstate economic assistance to China. But more important than lifting the ban on the third yen loan program is for the World Bank to lift its ban on all financial assistance to China, for which there is little hope at this point.

Consumer Electronics

Japanese consumer electronics makers, stuck with growing stockpiles of products manufactured at their Chinese factories and depressed sales of goods made in Japan for the Chinese market, are in a fix. Yet most of the companies have no intentions of changing their plans to enter the Chinese market.

The true feelings of such companies are reflected in the words of a Sanyo Electric spokesman, who said, "We cannot ignore the glamour of China's potential purchasing power, even if our production may be lagging at the moment."

As for their increasing stockpiles at their China factories, the spokesman looks at it as a passing phase. "This is due to the increased taxes on manufactured goods that China introduced last spring, and the ensuing debilitating effect it had on the market." As a result, the companies did not change their investment programs, but stepped up cooperative measures.

In October last year, Matsushita Electric Industrial started up a joint venture to produce color TV picture tubes, and Hitachi plans to manufacture VTRs starting this fall in a technical cooperative effort.

Unfortunately, as a result of the Tiananmen Square massacre, foreign tourists have dropped significantly, and therefore sales of "Made in Japan" consumer electronics products available at duty free stores have fallen.

The shadow cast on Japan by the incident is big according to Ministry of Finance trade statistics, with shipments of color TVs to China in 1989 dropping 30 percent from the previous year.

Tourism and Hotels

The massacre saw a sharp drop in the number of Japanese visiting China, with around 140,000 people going there between June and December of 1989, or 60 percent fewer people than the same period in 1988. Counter to what the numbers may suggest, though, the travel industry here offers cut-rate prices on tours to China and is bending over backwards to get people excited about going there.

Their efforts seem to be paying off a little, but as an official of the Japan Travel Bureau, which specializes in travel to China, suggests, it will take some time to recover. As an example the official pointed out that, "The number of tourists who headed for China during Golden Week this year were 70 percent of what they were last year." The official remains optimistic though, saying, "In order to attract tourists, we must change their image of China resulting from the Tiananmen Square incident. The Asian Games in September offer an ideal opportunity."

Meanwhile, a joint venture hotel run by the Hotel new Otani and the Beijing tourist bureau, which has been mainly empty for the past year, opened for business on April 1. In April, 40 percent of its 512 rooms were occupied, and in May, the figure rose to 55 percent.

Compared to expectations of achieving an 80 percent occupancy rate, May's results are still too low, but in spite of this the New Otani manager says things are looking brighter, and predicts, "Occupancy should hit the 70 to 80 percent level with the rush of summer tourists."

Trade

For 11 straight months, between June last year when the massacre took place and April this year, trade between Japan and China has dipped below the performance it showed the previous year.

The continuing chill in trade dragged most noticeably coming into this year with levels of 40 to 50 percent below the previous year, (though imports were higher than the year before).

According to contract figures gathered by JETRO [Japan External Trade Relations Organization] from the leading 18 trading firms in Japan, exports to China in 1989 were

48 percent less than in 1988, and monthly exports for April were 61 percent of the same month a year earlier.

As for investments in China, Japanese companies showed considerable growth between January and September of last year according to reports received from the Chinese government.

The reports say Japanese companies signed 221 contracts (a 60 percent increase over the year before) worth 280 million dollars (an increase of 64 percent over the year before). The actual amount spent was 180 million dollars (an increase of 70 percent from the year before).

But from October to December, the same reports show there were only 73 contracts inked (down 27 percent from the year before) worth 160 million dollars (down 40 percent from the year before), while the actual amount spent was 180 million dollars (down 55 percent from the year before).

A trading firm official comments that, "We took three blows. One from curbed financial policies, one from the scarcity of foreign currencies, and one from the Tiananmen massacre." Heaviest of all though was the blow from Tiananmen, which stopped the construction of plants and factories, while other plans were stalled.

Banks 'Perplexed' by PRC's Bank Sanctioning

OW0606141190 Tokyo NIHON KEIZAI SHIMBUN in Japanese 3 Jun 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] Japanese banks are perplexed by China's hint that it will sanction the Bank of Tokyo Ltd. for obtaining a permit to open a resident representative office in Taiwan. They had hoped that "China will choose to overlook it." Banks are expected to keep a wait-and-see stand for the time being, under the belief that China's action is really aimed at blocking Japanese banks from rushing into Taiwan.

On the other hand, as of 2 June, no such hint had been made to the Mitsubishi Bank Ltd., which is also planning to set up a resident representative office in Taipei for the Bank of California [Bancal], Mitsubishi's affiliated bank in the United States.

The Bank of Tokyo acknowledged that China expressed concern over the bank's advance into Taiwan, and hinted at sanctioning the bank in retaliation. However, the bank did not reveal details, saying that "we are still trying to find out China's real intention."

Reacting to this news, major city banks, which have been studying the possibility of going into Taiwan following the Bank of Tokyo, said that "China's action is probably aimed at checking other Japanese banks' similar actions." They will watch the situation for the time being.

The Bancal, Mitsubishi Bank's affiliated company in the United States, has applied for a permit to open a resident representative office in Taiwan, but China has not filed a complaint to the Mitsubishi Bank in connection with this. The Mitsubishi Bank thinks that "China's policy for the Bancal can be different from that for Japanese banks because the bank had planned to advance into Taiwan before our acquisition of the bank; above all, this is a U.S. bank." China's attack is targeted at the Bank of Tokyo only so far, but other Japanese banks, including the Mitsubishi Bank, are concerned. The banks are trying to collect further information on China's intentions since China's move influences the banks' policy for reopening loans to China.

* Iran, Iraq Request Aid in Petroleum Operation

90240179A Tokyo NIHON KEIZAI SHIMBUN in Japanese 1 May 90 p 9—FOR OFFICIAL USE ONLY

[Article by Nikkei reporters, Kobayashi and Yoshida]

[Text] **A Heavy Funding Burden; Political Risk Also Food for Concern**

Iran and Iraq, two of the largest producers of oil in the world, have come to Japanese industrial circles in succession seeking capital cooperation on crude oil projects. The form is different, with Iran seeking to have Japan assist in the storage of oil in Iran, and Iraq seeking joint development of oil fields, but the aim of trying to extract a vast amount of private-sector capital from Japan with oil as collateral is common to both. However, the country risk is high, because both countries have problems in the management of their economies and in their diplomatic relations with Europe and America. Even though a tightening of oil supply and demand is expected in the medium to long term, trading companies and oil, electric power and gas companies feel a bit nonplussed at the current ardent advances from the Middle East.

Swelling Foreign Debt

The ones who approached Japan with requests for cooperation are Petroleum Minister Aqazadeh-Khoi for Iran and Oil Minister Shalabi for Iraq, major cabinet ministers who represent the two countries. The scale is also extremely large: Iran's storage plan is for 100 million barrels (an advance payment of $1.5 billion to $2 billion), and Iraq's development of oil fields will be for a daily volume of 1.62 million barrels (an investment of $2 billion to $3 billion), and if attained, either plan would be capable of influencing the world supply and demand of oil.

Iran and Iraq were in a state of war until the summer of 1988. The fact that these two countries are now, in a manner of speaking, competing in procuring funds from Japan, is because postwar restoration has become a crying need for both. The outlook for Iran is for its population to rise from its present 55 million to exceed 100 million in the year 2007, so economic development is a task of the utmost priority. For Iraq, too, its foreign

debt has reached $60 billion to $70 billion because of its war expenditure, so it is wracking its brains over the debt problem.

The quickest way to deal with this is to expand their oil business, which can obtain foreign currency income. Apart from Japan, Iran and Iraq have also entered into negotiations on cooperation with such places as Europe and the Republic of Korea, but they are said to be pinning their greatest hopes on Japan, which has abundant capital and is also the largest as a market for oil.

However, the Japanese industry circle side which received the proposal is not all that positive. There is also the aspect that the content has not yet been boiled down, and will depend on future negotiations, but viewing it at the present stage, there are a number of problems.

There Is Already Sufficient Storage

Oil industry circles feel nonplussed by Iran's storage proposal because they are in the process of making approaches to the government to increase storage by the nation, because the burden of private-sector storage is heavy. In spite of the fact that a supply on the level of 45 days is adequate on a commercial basis, at present they are obligated to have a store exceeding 88 days. The Iranian proposal is capable of resulting in having an even greater burden imposed on them.

In regard also to the proposals for receiving crude oil, neither the Iranian nor the Iraqi plan have much attraction for oil industry circles. If it is only a matter of securing a stable supply of crude oil, there exists the method of a long-term contract. If the kind of situation arose in which even this contract would be scrapped, there would be a possibility that Iran and Iraq's promise of a long-term stable supply of oil would not be kept either.

What makes the problem still more complicated is the delicate diplomatic relationship of the two countries with Europe and America. The problem of the U.S. hostages held by Lebanese guerrillas has not yet been solved between America and Japan. As for Iraq, its path of military expansion, such as the recent attempts to acquire nuclear weapon detonators, is causing tension between it and Europe and America. It could also be said that they have inclined toward Japan for precisely that reason, so the projects are accompanied by risks in terms of politics.

Supply Capacity Is Difficult To Abandon

Nevertheless, the scenario in which crude-oil supply and demand continues becoming tighter toward the middle of the 1990's is a commonly accepted accepted theory. In that process, the countries which would be able to increase production of crude oil and supply it, along with the Persian Gulf's Saudi Arabia, Kuwait and United Arab Emirates, are Iran and Iraq. They are large producers of oil; Iran's petroleum reserves are said to be approximately 93 billion barrels (a reserve production ratio of 113 years), and Iraq's are said to be 100 million barrels (a reserve production ratio of 101 years).

Japanese oil industry circles and others are cautious, but it is also true that they would like to expand their connection with these two countries. The concerned persons on the Japanese side are not doing anything like refusing out of hand. The form in which it becomes concrete will probably attract attention in the future, enterwined also with changes in the international situation.

Political

JSP Committee Starts Reviewing Soviet Policy

OW0506061990 Tokyo NIHON KEIZAI SHIMBUN in Japanese 30 May 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Text] The Japan Socialist Party [JSP] on 29 May held its first meeting of the Japan-Soviet Special Committee (chairman: Takakatsu Tsushima) since the general elections and decided to begin formulating the party's new, unified view on Soviet policy, including the northern territorial issue.

At the meeting, Secretariat Director Minoru Mizuta revealed a plan to radically review the party's conventional policy. He said: 1) Although the JSP's conventional basic policy calls for the return of all the Kuril islands, the progress of the argument is unknown; and 2) we want to formulate our new, unified view, taking the history of Japanese-Soviet exchanges and of international and legal positions into consideration. Since those who call for the return of two islands with the comment "Japan should switch also to a realistic stance toward the Soviet Union," have become influential in the party, this plan will likely create a stir within and without the party.

Secretary General Yamaguchi issued the instruction that the new policy be formulated on the increased indication of progress in Japanese-Soviet relations. Therefore the party needs to spell out policies in keeping with the latest international situation. The special committee will develop its proposal around the time of September, taking into account Chairwoman Doi's plan to visit the Soviet Union this fall.

Regarding the territorial issue, the JSP in 1961 approved its policy "to conclude a Japan-Soviet peace treaty after the return of Habomai and Shikotan Islands under the [1956] Japan-Soviet joint declaration and, at the same time, to continue negotiations after confirming the return of all the Kuril islands." Later, in 1977, as criticisms of the call for "a phased return" and "the return of two islands" intensified, the party reconfirmed its call for the return of all the Kuril Islands in a statement by the chairman at the time, Narita. In 1978, arguments started, dividing the party over whether "the four islands should be returned in a package" or "two

islands should be returned first." The secretary general at the time, Tagaya, confirmed only the principle that all the Kuril Islands should be returned and settled the issue by leaving specific programs as "a matter to be further examined."

The special committee is to formulate a new, unified policy, settling this decade-long argument. At a regular convention of the JSP Hokkaido branch last September, Chairman Tsushima said, "We want to return to the time of the joint declaration and, as an issue for study, to conclude a peace treaty through the return of two islands." In light of this statement, the debate will likely develop in that direction.

From the government-Liberal Democratic Party quarters, former Deputy Prime Minister Kanemaru in April called for the return of two islands, thereby creating a stir. If a similar call gains force in the JSP, the No. 1 opposition party, a delicate influence may be exercised on future Japanese-Soviet negotiations as well.

* Domestic Political Situation Remains Unstable

902B0095A Tokyo SEKAI in Japanese
Apr 90 pp 241-257—FOR OFFICIAL USE ONLY

[Discussion between Takeshige Kunimasa, ASAHI SHIMBUN editorial staff, and Kenfu Okazawa, Waseda University professor, with questions posed by SEKAI: "Japan's Political Situation Is not Stabilizing"]

[Text] **Will There Be a Return to the System of 1955?**

Kunimasa: The 39th House of Representatives election, the major focus of which was whether the Liberal Democratic Party [LDP] would maintain its majority or whether there would be a reversal of the majority and minority parties, can be summed up in newspaper headline fashion as "LDP Exceeds Stable Majority, Achieves Absolute Majority; Huge Leap Forward for Japan Socialist Party [JSP]; Setback for Komeito; Crushing Defeat for Communist Party and Democratic Socialist Party [DSP]." At the 118th special Diet session convened in late February, LDP President Toshiki Kaifu was once again designated prime minister, and the second Kaifu government was immediately inaugurated.

Candidates endorsed by the LDP hold 275 seats, exceeding the stable majority of 271 seats; and in addition, on election day and the day after, the LDP shrewdly adopted an additional 11 successful conservative candidates without party affiliations, and was in the midst of negotiations with two or three more, so that ultimately it is close to having a so-called absolute stable majority of 278 seats.

If it exceeds a stable majority, the LDP will be able to take the chairmanships of each of the 18 standing committees in the House of Representatives, and in a committee vote the LDP will win. If it exceeds what is called an absolute stable majority, the LDP will be able to win a majority in a vote not merely in the standing committees, but in any lower house committee.

Prime Minister Kaifu until the general election was somehow not taken seriously, and was so little trusted that he was not even allowed to dissolve the Diet and call the election himself, but as he demonstrated at a press conference on 19 February immediately after receiving the people's judgment in the election, he has gained self-confidence, and he is showing his desire to remain prime minister for more than two years [an ordinary "term" in Japan.] He began his administration during the depths of what has been called the worst crisis to befall the LDP since its inception, but the "pathos" has completely disappeared.

The Japan Socialist Party [JSP] exceeded its previous total of seats with the votes it received in same-day ballot counting; and even in the capital area of Tokyo, Saitama Prefecture, and so on, where up to now it was said to be lacking in strength, the JSP caught a favorable wind and rode to victory, alone among the opposition parties, securing 136 seats. However, the party failed in its oft-repeated claim that it would break the LDP's majority; in fact the LDP obtained an absolute stable majority. The second "mountain" of which [JSP] Chairwoman Doi spoke ultimately failed to move.

Chairwoman Doi had also said that the last election was, like it or not, a vote by the people on the consumption tax; what will happen following the party's setback on that issue has become a major question.

As far as the LDP and the JSP are concerned, at first glance it seems that we have a return to the so-called "1955 system" of joint leadership of the LDP and JSP, but a crucial difference is that while in the past the LDP was twice as strong as the JSP, and so was able to continue its one-party rule for so long, now that the opposition controls the upper house the situation is different.

In the House of Councillors, as a result of the 15th ordinary election of last July, the LDP lost its majority and fell into the status of a minority government. Moreover, as LDP General Secretary Ozawa said during the election campaign at the Japan Press Club, and as former Deputy Prime Minister Kanemaru and some party executives and government leaders are saying, this reversal will last at least six years, and if the party is not careful, until the House of Councillors election nine years hence; and it must be dealt with accordingly. The fact that the LDP's one-party rule has in effect collapsed is recognized inside the party as well as outside.

Under a bicameral parliamentary system such as Japan's, the precedence of the lower house's decision is recognized in such areas as budget bills and treaties; but in the case of general legislative bills, even if they are passed by the lower house, if they are turned down or amended by the upper house, in order to become law they must go back to the lower house and be approved by a two-thirds majority of members present (Article 59,

section 2 of the Constitution). Two-thirds of Japan's House of Representatives is 342 members, and an absolute stable majority in the 280-member range does not come close to that figure; without the cooperation of other political parties the LDP cannot attain a two-thirds majority. Former Prime Minister Fukuda and others are saying that all of the LDP's legislation will unavoidably be killed in the Diet.

Okazawa: I agree with you that to interpret the election results as a reversion to the 1955 system; a return to the days of a showdown between the LDP and JSP, is to give rise to a grave misunderstanding. As a result of this election the tripolar political structure (of the LDP, JSP, and the Komeito,) which had come out clearly in the latter half of the 1980's, has temporarily become obscured, but the basic format is unchanged. The election is best taken as a temporary reversal in course.

The first reason for this view is that, to the extent that the situation in the two houses of the Diet is distorted, although the relative scale of the so-called centrist bloc of the Komeito and the Democratic Socialist Party [DSP] has shrunk, without the support of that bloc legislation cannot make it through the upper house. The political significance of the centrist bloc is not decreasing.

The second reason is that, while the LDP temporarily demonstrated a reversal with its overwhelming victory, the policy problems which Japan will now face—friction between Japan and the U.S.; rice; market opening; the reform of land, housing, and politics—were for the most part left on the back burner. With an old-fashioned, divide-and-conquer election campaign the LDP managed to scrape together enough seats, but are those seats appropriate for the policy problems which must now be resolved?

Because of its desire for seats, the LDP overextended itself with irrational promises, and frankly, acted in ways which indicate a lack of recognition of how times have changed; for example refusing to import even one grain of rice. Because that is the way the party obtained its 286 seats, if we ask whether the party will be able to coordinate each policy item from now on, isn't the answer that they will not?

For example, the LDP must first form a consensus inside the party among urban conservatives and rural conservatives on whether to cut the producer price of rice, and whether to allow rice imports. Next the party must confront its defeat in the House of Councillors. The party must at least coordinate policies with the centrist bloc. However if the LDP compromises too much, discord will again appear in the party where a consensus had been reached.

Kunimasa: On 19 February, after most of the seats had been decided, Komeito Chairman Ishida was asked about the future of the tripolar political structure; and while he was not as high-spirited as he had been in the past, he answered "That situation will continue as before."

This shows an understanding that with the present situation in the House of Councillors, "Our existence is important; one cannot ignore the LDP, the JSP, or the Komeito." The political situation will change completely depending on which party the Komeito allies itself with. Even if it "borrows" the DSP's ten seats, the LDP still falls short of the 127 seats needed for a majority in the House of Councillors. However, if it can borrow the Komeito's 21 seats, the LDP can attain a majority with 130. This is an important point.

To the extent that the opposition parties band together in the upper house to resist the LDP, bills will have to return to the lower house and have the support of two-thirds of the members there. Moreover, each party sometimes displays its individuality in the upper house, and in the past all sorts of things occurred. The Komeito is being drawn toward the JSP. If that happens the LDP's next step will probably be to try to take in the 46 seats the Komeito now has in the lower house, along with the 14 DSP seats which would come to it naturally. In that case they would exceed the 342 seats needed for a lower house majority. Even though the upper house might oppose the lower house's decisions, that would not be a problem. I believe that if the Komeito were to agree to this, the DSP would follow. However, the Komeito is far from doing so.

Okazawa: It is important to recognize that. Depending on which way the centrist bloc swings, the power structure of the lower house may be thoroughly upset. The relative scale of that bloc has decreased, but politically nothing has changed. The political situation from now on can no longer be seen simply as one where in a showdown between the two major parties, the numerically stronger party wins.

Kunimasa: Under the 1955 system, as former Deputy Prime Minister Kanemaru always says, the LDP had both official and unofficial pipelines to the JSP, and even when there were no discussions in the Diet, legislation and budget proposals were passed. There was an advantage to the activities that went on behind the scenes of the "1955 system," which was centered around the politics of the Diet Countermeasures Committee.

Two Menacing Forces

Okazawa: Something else which must be added is that in the world of party politics two political units have arisen with menacing powers.

One of these is the current centrist bloc. The other is that inside the LDP, whose strength has fallen from 300 seats to fewer than 290, individual factions have gained the frightening power to scare the party mainstream into accepting their views by threatening to leave the party and thus deprive it of its absolute majority.

Kunimasa: In this election the Nakasone faction, the former governing faction, suddenly lost strength. The Miyazawa faction, which because of the situation at the time of the formation of the Kaifu cabinet found itself

shut out of the top three party posts, maintained its strength in the election; and upon becoming the second largest faction in the House of Representatives, successfully demanded that it be granted one of those three posts. This is surely because, as you said, the LDP has become smaller, even if only by 20 seats. Under present circumstances it is not relations with the opposition parties, but the situation within the party which has the potential to destroy the precedence of the LDP.

The LDP when it held an absolute majority in both houses could be described as an oval whose two axes were the hawks and doves; the party held on to its power while coordinating policy internally through a tug-of-war between the six or so factions, and while diverting the attention of the public. However the party is now more like a circle with a single axis; moreover, it is a circle with a much-diminished capacity.

Okazawa: Right now in particular the posts of prime minister and party president are held by the party's smallest faction. When the LDP had 300 seats, if the party stalwarts, who have finally finished their "penance," had demanded that this disposable administration "restore" power to them, Kaifu would have simply given up. However, because the relative scale of the party has shrunk, even the smallest faction can now jeopardize the party merely by threatening to split apart from it.

In that sense it is probably the Miyazawa faction and the Komoto faction which are the most important. For Prime Minister Kaifu the question is whether to leave unchanged the mainstream of the Takeshita, Abe and (former) Nakasone factions, or, because, the old Nakasone faction has lost strength, to bring the Miyazawa faction into the mainstream to replace the Nakasone faction. If he misreads the delicate situation, despite his election victory he will find his base of support within the party suddenly disappears. The LDP at the present time is not as rock-solid an organization as the talk in the newspapers of an overwhelming victory would imply.

Therefore the 1990's are a period of uncertainty about the future course of the multi-party coalition political structure; until six to nine years from now [the earliest the LDP could regain sole control of the government], party politics will proceed not under a bipolar structure but a tripolar structure.

Kunimasa: Speculation has begun within the LDP that the 270-plus seats the party is recognized to hold are too numerous. I am not sure whether he was made to say it, or whether he volunteered it, but during the election campaign, Kaifu said that if the party lost its majority, he would take responsibility. I don't know of any prime minister and party president who ever resigned to take responsibility for an election loss without being able to dissolve the Diet and making a public announcement. Former Prime Minister Uno because of his sex scandal could not even go out and campaign, but he never once said that he would step down if the LDP lost the election. There was a movement within the LDP to replace Prime Minister Kaifu, according to a scenario I will describe next, if the party had lost the lower house election the way it lost the House of Councillors election last year, but it never came to that.

When former [LDP] Secretary General Abe visited the USSR in January of this year, the mood inside the LDP became one of eagerly looking forward to an Abe government; and Kaifu went into eclipse. I said at the time that that was the first time I had experienced such a rapid change in the mood of the LDP. However, the results have changed. Now, Kaifu is going on the offensive. So I think the situation is quite complex.

Okazawa: In other words we can say that the LDP's victory this time was a troublesome one.

First of all, what will the party do about the timing and the pretext for replacing the non-mainstream prime minister with one who is in the party m...stream? Because the LDP's victory was too great, that has become more difficult.

Secondly, because the scale of the LDP's victory was reduced [compared to the previous election], there is an increased chance of a revolt within the party.

Thirdly, because the party did all it could to indulge the voters, to literally accumulate all the votes, the formulation of policy from now on will be extremely difficult. When the party begins to busy itself with concrete policy problems, each group will have to set aside its frustrations.

Kunimasa: That is what ASAHI SHIMBUN editor Yoichi Funabashi wrote in an article in the economics section of the 20 February edition entitled "The Election Watched Around the World: Consumers Ignored, Investment Friction." The party only indulged the voters, and did not make clear what basic approach it would take, what important policy measures it would adopt, in the midst of the rapidly changing international situation. Kaifu did make some general comments at the discussion group of the heads of the various parties, but that is all.

At the end of the article, Funabashi said that "In this election it was not all that important which party won and which lost. That is because the voters, the citizens, who were not given a choice of policies, were already losers before any votes were cast." That is truly a cynical way of putting it, but the people were in fact left out. They were fed only carrots, without any sticks. This was a thoroughly old-fashioned, profit-driven election, and now the bill will have to be paid.

For example, Minister of International Trade and Industry Koh Matsunaga, who stated that the idea that "we will not import even one grain of rice" will not be accepted by other countries, was made to keep quiet by the rest of the party. Although under the 1955 system, when the LDP was more like a gathering of five or six parties, it could have afforded to overlook a statement of

that kind, this time the party said it must not give the people any ammunition for attacks, and it beat Matsunaga completely into submission.

However, the Japanese-U.S. Structural Impediments Initiative [SII] talks began right away, and the Uruguay Round [GATT talks] is lurking in the background. In those arenas that sort of peculiar logic cannot possibly be accepted. I will venture to say that if the government and the LDP practice "self-control" in that way, then in the coming negotiations between Japan and the United States, Japan and Europe, Japan will be driven into a corner.

Okazawa: Ultimately the only choice the country has made is to put off making a real choice.

Kunimasa: The consumption tax was definitely the biggest point of contention, but it was an issue which had carried over from the local elections to the House of Councillors election to the general [House of Representatives] election.

Okazawa: This was not an election which addressed the future.

Kunimasa: Both the ruling party and the opposition parties understood that. But although they understood it, they were not able to make their stances, their policies to cope with a rapidly changing world, into election issues.

Elections and Money

Kunimasa: During the election campaign I made a tour of election districts in every region of Japan, and it certainly was a traditional kind of election. In my experience as a political reporter, the House of Councillors election in 1974, the year the Tanaka cabinet fell due to problems of financial influence and financial support, was said to be an unpardonable example of an "entire company election" [one in which the workers vote for the candidates supported by management]. That was the election in which Tanaka used a helicopter for the first time to campaign across the country. I think this was the worst "entire company election" since that time.

At a press conference immediately after the general election, Kanebo Chairman Junji Ito made the following comments, not in response to a question but as an expression of his own concerns regarding the world of politics: "The result of this election was that nearly all of the Diet members tainted by the recruit scandal, regardless of party, were reelected. The centrist parties—the Komeito and the DSP—lost a great deal of strength. The clever strategy of the LDP was effective." In addition to identifying those three characteristics, Ito said that "The Japanese people have become economic animals unconcerned with morals or ethics. A country which loses its morality will go into decline."

The question of whether or not the LDP received 30 billion yen in political contributions has been much discussed since before the campaign, but either way the "Kakuei Tanaka method" of sucking in money from corporations and passing it around has been handed down from Tanaka to Takeshita to Ozawa.

Takashi Tachibana, who followed the Tanaka-style election in 1974, makes the following comments: "Mr. Tanaka displayed a brilliant knack for the process of turning 'political power into money' and the process of turning 'money into political power'; and he used the power of money to create the strongest government in Japan's history. To Tanaka the meaning of money in the world of politics went from a necessary condition, whereby politics requires money, to a sufficient condition, whereby if one merely has money one can have an effect on politics."

Tachibana also says that "in the 1974 House of Councillors election, which marked the beginning of the downfall of the Tanaka government, Mr. Tanaka's conception was not that elections always require money, but that if one merely spends money one can win an election; and so he freely poured his financial power into the campaign. Tanaka was beaten, but his belief in money did not waver in the least because of that defeat."

I agree with Mr. Tachibana. This time around, though, the part which reads "He poured money into the campaign but was beaten" became "He poured money into the campaign and won the election."

In the final stages of this election campaign, LDP Secretary General Ozawa was asked during a press conference at the Japan Press Club "It is said that you made rather threatening remarks to people in financial circles in pursuit of an entire-company election; what is your response?" Ozawa replied that "People speak of an entire-company election, but if companies actually had made all their employees vote for us, I would have no complaints. It would be the proper thing to do in order to preserve the democratic system. If it is perceived in the financial world that even if the LDP had lost its majority, the ruling and opposition parties could have cooperated harmoniously, then I must say that that is a mistaken perception." He added "What was wrong with what occurred? There is no room for hesitation in defending economic freedom. Don't labor union members all vote together for the JSP?"

When this talk about money became a major topic of discussion, one of the elders of the financial world had this to say: "When asking someone for something, to defiantly make threats without a trace of humility is the behavior of gangsters. To have one's supporters make the rounds in Shinjuku, or Ikebukuro, or Ginza and collect money from restaurants and shops; telling them it's only natural that they give. When I told that to one of the LDP elders at some party gathering, he apologized, saying that that was because young people today [meaning Ozawa] know nothing about manners." That is the way things stand.

That is the basic structure of the financial world and the LDP, and each business and candidate; large corporation

and party faction, uses the same method of fund-raising. This occurs in a two-, three-, four-fold structure.

Okazawa: The LDP has traditionally had a set of three election tactics. The first is "scattering"; i.e. the straightforward inducement of profits. The second is "clamping down"; this means keeping a tight rein on networks of territorial and blood relationships and on entire-company elections. The third is "concealing the points at issue." In the case of this election, that meant as much as possible hiding the concrete issues of the problem of a choice of political systems.

However, we are now entering a new era, and because Japan's economic power has increased, our place in the world has grown larger whether we like it or not. So naturally the world's mass media cannot fail to be interested in this country's political arrangements and mechanisms. Thus it is reported all over the world that in Japan elections, which can be called the starting point of democracy, are overrun by money; and politicians who once withdrew from the front lines because of scandals can calmly run for election again.

In other words, it is inevitable that the distinction Japan has achieved in the international marketplace of opinion through its efforts in the fields of science and technology and economics will be lost because of Japan's questionable politics. Surely the internationalized people in the financial world are gradually becoming aware that this is a rather unsuitable situation. That is because the financial world is by far the most internationalized group of people in Japanese society.

Kunimasa: Up until now the leaders of the financial world have had the latitude to give a certain amount of money, but to separate the front side from the back side; in other words the side which had to be made presentable and the side which was murky. At the least, they came up with some pretext for giving the money. However this time they gave money just as they were told. They were told by the ruling party that the election was a choice of political systems, and were virtually threatened that if the LDP were to collapse, anything might happen to their companies and to the whole financial world.

Ultimately, this is related to the question of whether behind Japan's skill at making money and her economic development there lay this kind of adhesion.

I believe that America, Europe, and the countries of Southeast Asia are all beginning to see this weak point. With Japan's position today, we can no longer simply say that our elections are purely domestic affairs.

Okazawa: Advanced parliamentary democracies, for whom fair play in both political and economic competition is the minimum moral standard, will wonder if they can really trust a country where the fundamental spirit of fair play itself is shaky. In the political world too the idea is emerging that Japan is unique. To eradicate these suspicions will no doubt take much effort, much time, and much money.

Kunimasa: Looking at the situation from the point of view of other countries, even if, for example in negotiations to solve trade friction, the Japanese Government is told it must persuade industry to take a certain position, it would seem that a government which openly sucks in money from industry would be able to do no such thing.

Okazawa: The worldwide trend is from corporate donations to individual donations, and then to public subsidizing of political parties. The public too knows that to make a democracy function a certain minimum amount of money is required. Political money is the root of various evils, but at the same time it is also an absolutely essential, necessary cost of democracy. The problem is how to secure the principle of equal opportunity for all parties and all candidates. I think the day is gradually coming when there will no longer be much resistance to the introduction of public subsidizing of political parties, whereby each voter pays a small amount of money. This is a time when both the ruling party and the opposition parties should seriously come to grips with the problem of politics and money.

Kunimasa: Let's talk about a concrete example. In a three-man electoral district in western Japan, one week before election day an opinion poll appeared in the newspaper. A certain candidate was predicted to finish fourth in the balloting based on his estimated percentage of the vote. As soon as the poll results appeared, the candidate is said to have gone to various affiliated small businesses and bought them out at a price of 10,000 yen per employee. He needed a minimum of 3,000 votes to be elected, and considering the yield rate he probably passed out at least 100 million yen. The 10,000 yen was given to each voter about two days before the election. Looking at the results, he squeezed in by less than 1,000 votes. When I heard about this example, although I had heard before of entire companies voting together and so on, I thought it was horrible indeed.

Has the Recruit Affair Faded Away?

[SEKAI] Will the problems of political reform and the like now be pushed aside by the LDP?

Kunimasa: The first steps toward reform are being taken in study groups and so forth, for example with Secretary General Ozawa's statement that "Banning corporate donations would be OK, but the JSP and the DSP would also have to prohibit contributions from labor unions." In the case of the JSP, Sohyo [the General Council of Trade Unions of Japan, formerly the JSP's main support group] was disbanded, but looking at the realities of the people, things, and money the JSP receives from its supporting labor unions, one gets the feeling that what the party says in front of the TV cameras cannot completely cover up the truth.

Okazawa: Even so, the ruling party, the opposition parties, and the financial world are all saying that they are tired of this type of election.

Kunimasa: The feeling is coming out that people would like to see this sort of thing brought to an end. This is tied to the question of what on earth happened with the Lockheed affair and the Recruit affair.

The Lockheed affair came into the open at the time of the Miki cabinet; and former Prime Minister Tanaka was arrested and indicted. Tanaka was found guilty at his first and second trials, by which time the Lockheed affair had lasted for five governments—Miki's, Fukuda's, Ohira's, Suzuki's, and Nakasone's—without fading away. There is the special situation of the prime minister having been arrested, and for that reason alone this was an important matter for the LDP, for the entire political arena, and for all of Japanese society. While the Recruit incident received all that attention, now before two years have even passed there are already people saying that the party has done its penitence; cleared its name. Although they received fewer votes, the party leaders connected with Recruit—Nakasone, Takeshita, Abe, Miyazawa, Watanabe—were all reelected. The only politician to be indicted, former Chief Cabinet Secretary Fujinami, was also quietly reelected; about the only politicians to be defeated were Yoshiaki Tanaka of the DSP and former Deputy Minister of Education Takaishi. My feeling is that it is still too soon for the whole affair to fade away.

Okazawa: Since the Showa Denko affair, every time a scandal or a case of political corruption appears, some political reform or resolution to purge the party is carried out, but these never lead to a reform of the system itself. I feel that we must not think too emotionally about the problem of politics and money. To talk about "penitence" and "clearing the party's name" is to argue emotionally. I think a more effective approach would be to examine what exactly was improper in each case of political corruption and take a step or even half a step toward reform of the political system.

In the end Japan plays games of searching for culprits, and talks about whether a deed is pardonable or unpardonable, but if we look carefully we see that almost no political reform is actually carried out. So after 10 years pass, the next scandal appears. Thus is it not true that the political energies of the last 10 years were wasted?

The result is that the people's perception of politics remains low, the political system is not improved, and politicians become skillful only at the techniques of corruption.

Kunimasa: The media also bear some responsibility for this. I think it would be fine if political opponents did not make leaks to the newspapers; if the media did not go sniffing things out. At the time an incident comes to light, the media pursue it exhaustively, but they tend to give up too soon.

When the talk of reform does not come to fruition, the atmosphere becomes one which encourages the issue to be left unresolved. The attitude now is that if we dig ourselves into a trench and keep our heads down, we will ride out the storm.

Over the past few years the Komeito has been involved in one scandal after another, from the gravel boat bribery case to the Recruit affair and the Meidenko question, which is unusual for that party. Apparently at one point one of the party's executives asked someone how the party should deal with its problems. That person is said to have responded "Dig a trench, lower your head, and wait for the gale to pass away." When I heard that, I thought that in contrast to the news reports and so on this was biting sarcasm, and criticism, and that it also touches on one aspect of the truth.

The Recruit affair was characterized by a truly broad and deep distribution of stocks and money. As I previously wrote in a newspaper article, in fact Mr. Kaifu also was offered 2,000 shares of Recruit Cosmos stock by the Recruit company before those shares were available publicly, but he turned them down. I wrote that that was honorable of Mr. Kaifu, but investigating more thoroughly, there are indications that Kaifu knew at the time the offer was made how many shares the parties concerned took to Yoshiaki Mori and to Mr. Fujinami.

Mr. Kaifu received 5.5 million yen in political contributions, 7.95 million yen in party ticket sales, and 1 million yen in lecture fees from Recruit, for a total of 14.45 million yen. He acknowledged this in the Diet and apologized, saying "I did not know that Recruit was a company which caused problems for society and acted improperly. That was due to ignorance on my part, and is something to be regretted. From now on I will take strict precautions." However, the fact remains that he did accept those donations.

Mr. Kaifu is a member of the education-*zoku* [*zoku*: a group of Diet members who exercise in a particular field policy-making expertise and contacts generally acquired through service as chairman or vice-chairman of the appropriate party policy deliberation committee], and was once minister of education. Mr. Mori and Mr. Fujinami, also of the education *zoku*, received 30,000 shares and 12,000 shares, respectively, of Recruit Cosmos stock before those shares were available to the public. However, from the point of view of that calculating Mr. Ezoe [Recruit founder and then-chairman], was Toshiki Kaifu's utility value as a politician at no more than the "2,000 share" level? If at that time Kaifu's secretary had calmly said "thank you" and accepted those 2,000 shares, Kaifu would be nowhere today. In that sense, the roots of this matter run deep. I believe it is not something to be forgotten after little more than a year.

Is it enough to say, as Mr. Nakasone does, that "the voice of the people of Gumma prefecture [Nakasone's home district] is the voice of the nation?" Abe, Watanabe, and Miyazawa all shamelessly serve in cabinet posts or party executive positions in the second Kaifu government. There are many people asking whether it is really possible to say that everything has been settled.

A "Favorable Wind for the JSP

[SEKAI] What about the Socialist Party? The JSP greatly increased its strength, from 83 seats to 136, but what were the Japanese people hoping for?

Kunimasa: I think that in last year's Kita-Kyushu City Assembly election, Fukuoka special House of Councillors election, Niigata special House of Councillors election, Tokyo Metropolitan Assembly election, and regular House of Councillors election; and in this year's House of Representatives election, the entire JSP essentially rode on the coattails of the popularity of party Chairwoman Takako Doi. Without Ms. Doi there is no question but that the JSP would collapse overnight.

One symbol of this is that on the first day of the election campaign, when Ms. Doi went to Kamoya City in Kagoshima, the largest crowd in the city's history gathered to catch a glimpse of her. That was in a city which is Mr. Nikaido's home district, and where it is said that Susumu Nikaido is the only real politician around. Doi's popularity now is even greater than that of Hibari Misora [a singer] or Kazuo Hasegawa [an actor] in their heyday. There is no one else now who can travel around the country and draw such enthusiastic crowds.

Therefore, even if we say that "the JSP has made great strides," it is not because a "new JSP" has taken root, nor is it in response to the assistance of the JSP in the effort to repeal the consumption tax.

Okazawa: There is a lack of good people everywhere in Japan now, and it is causing problems. Industry is suffering, and the world of politics has a typical shortage of human resources. It is incredible that in these times, out of 286 ruling party members in the lower house, none is a woman. I have the feeling that in this situation it is Ms. Doi who single-handedly settles the frustrations of many of Japan's voters.

However, even after Ms. Doi became the leader of the JSP, the JSP's "party resources" did not increase very much. These "party resources" are the resources which a party can utilize in order to acquire and maintain political power; in other words political funds, human resources, policy ideas, authority, status, public service positions, and so forth. While the tide of the JSP is said to be rising, it is not gaining more of these resources. I have yet to hear of applicants lining up to join the party, or of the party's cash boxes overflowing with money from fund-raising campaigns. I think these are major problems confronting the JSP at the present time.

In other words, the fundamental perception of the voters seems to be that Ms. Doi is valued as the leader of the number-one opposition party, a party which criticizes the government; but that she is not quite capable of leading the government. While the Doi fad is continuing, there are no signs whatsoever of a "Doi government." Ms. Doi herself is shining in the spotlight, but the voters are hard-pressed to come up with the names of the 20 candidates for cabinet posts which are the minimum requirement for a ruling party.

Kunimasa: In a discussion broadcast by NHK [Japan's state television] on the evening of 19 February, the mayor of Izumo City, who has much international experience, suggested that it was time for the JSP to create something like a shadow cabinet modelled after that of the British Labor Party; and I agree completely.

In the last stages of the election campaign, at about 10 o'clock one evening, I telephoned Ms. Doi, who had just returned from Niigata; but she said that she had received about 20 calls from her district, and that she had to reply to them. This was at her Diet member's quarters in Akasaka. The head of the party had returned exhausted from campaigning, but she still had 20 or 30 things she had to take care of; and if she did not complete them she would not have been able to go out the next day. Can we say that that is an organization which can shoulder the responsibilities of government? It would be normal for the partadministration to designate people as shadow chief cabinet secretary, minister of international trade and industry, agriculture minister, and so on, and to divide up pending problems among them.

The reason that "a mountain moved" in the House of Councillors election was merely due to the three errors made by the LDP (the consumption tax, Recruit, and agricultural policies.) In this House of Representatives election we cannot say anything so audacious as that another "mountain" was moved; rather, the party recovered to its level of strength of two elections earlier—112 seats. At the next general election, the JSP may accumulate 160 or 170 seats. If in the meantime the party studies what basic approach and what policies it would take if it took control of the government, and trained its people, that would not be too late. Because of the LDP's reversal in the upper house, it will no longer be able to tyrannically accomplish anything it wants, and so I have thought ever since that the JSP would be better off putting less emphasis on "taking power" right away.

Okazawa: What is difficult is a problem like that of the chicken or the egg. If the party takes power it will accumulate human resources, and its political ability will increase. But on the other hand, if the party does not cultivate human resources to a certain level, the people may give it the status of the number-one opposition party, but they will not give it the reins of government. I feel that the JSP will have to demonstrate an established level of human resources and political maturity.

Kunimasa: Most newspaper reporters believe that even if the Socialists take power, the system will keep going. They say that if there is a transfer of power, the bureaucrats will immediately cozy up to the leaders of the JSP; that is the nature of bureaucrats. However, that will not last long. I understand the impatience of the people who have seen the perpetual opposition party come as far as it can, and who moreover, as the party comes to a time of generational change, are retiring without seeing their

desires realized; but if under present conditions the opposition takes power, I think it will lead to disorder for Japanese society as a whole.

Ultimately this will come to affect the "coalition government debate," but this time around the parties rushed into the general election without coordination; with the idea that they would take up the problem again after the election. I think this is one important point to note. If the four opposition parties had gone into the election after presenting even a rough draft of a plan for a coalition government, they might well have been received differently by the voters. Even if it had not been 100 percent satisfactory, it would have been one item with which to make a judgment. However even after spending more than a year working they were unable to present anything. That is not the way to go on the offensive.

In addition, the plan was "Let's discuss [a coalition] after the election," but now after the JSP was the only opposition party to increase its strength, both the Komeito and the DSP are losing their previous enthusiasm. Like the JSP in the past, both the Komeito and the DSP are saying that after losing, we should first put our own houses in order; and both are retreating behind their own walls.

Furthermore, concerning the deliberations so far, DSP General Secretary Yonezawa and others replied in a press conference at the Japan Press Club on 12 February that unless the JSP undergoes a "Copernican conversion" concerning the Japan-U.S. Security Treaty, the Self-Defense Forces, nuclear power and so on, a coalition will be impossible. After it made such a great advance in the last election, there is no way that the JSP could revise its basic line at the spring Socialist Party Conference in accordance with the requests of the DSP or the Komeito.

After all is said and done the coalition government discussions will be put on the shelf for a while. Rather, there is a stronger possibility that the moderate forces of the Komeito and the DSP, led by the Komeito, will join hands with the LDP to form a partial coalition, or to cooperate on basic policies, or in some further political reorganization.

The Direction of the Discussions on a Coalition

Okazawa: Because the coalition is an unfamiliar concept in Japan, I think we will have to experience various forward and backward movements. However, even so, there is one major misunderstanding among Japan's voters. That is that coalitions and combinations and mergers and so forth are all mixed up in people's minds.

For example, there are people who say that if policies are not always made jointly among the opposition parties, it will be impossible to take charge of a coalition government; but that is only true of a union or merger of political parties.

Furthermore, in Japan's case, the "medium constituency" electoral system [in which several candidates are elected in a single district] makes discussions about a coalition quite difficult. That is, while the party headquarters discuss a coalition government following an election, in the front lines of the campaign the politicians are scrambling for votes. Therefore if we argue the subject without realizing that the discussions concerning a coalition government which take place in Japan involve factors quite different from those in the European countries, we will be a little hard on Japan's opposition parties.

Unfortunately Japan's opposition parties are also somewhat immature when it comes to their fundamental way of thinking about a coalition government. It will take a little while, but let me explain my view of a coalition government.

A coalition is basically made up of four levels. The first is a combination at the citizen level, the second is one at the election level, the third is one at the parliamentary level, and the fourth is one at the governmental level. This combination at all four levels can be called a "coalition government." The techniques for a coalition at the citizen level are finally being learned little by little these days in the form of networking among political parties, labor unions, and citizens. Different political bodies are cooperating to solve the common problems of civic life.

Kunimasa: That first began to germinate at the time of last year's upper house election, didn't it?

Okazawa: Yes, I think so. A coalition at the election level is what might be called electoral cooperation. This too is something which the parties have finally been learning in the last few years.

A coalition at the parliamentary level is the act of forming a complex majority in the Diet for each issue. Different political units create complex majorities to deal with, for example, the consumption tax, or defense problems, or welfare problems. Through this process the sphere of agreement between the parties widens, or perhaps a consensus is established.

That is to say, a coalition government is born as a compilation of techniques of forming mutual agreements. Because in Japan things began with talk of a coalition government before those other types of combinations were realized, no progress is being made.

Kunimasa: I understand that very well. However, on the other hand I think there is the issue of the make-up of the political parties. Because the DSP originally formed by splitting apart from the JSP, both parties have the same roots. But after observing the parties for a long time, I think that the Komeito and the JSP are different by nature, and it would be extremely difficult to believe that those two parties could cooperate to form a coalition government.

Okazawa: I would like to discuss that point a little further. In coalition theory, when one thinks about the

conditions for the formation of a coalition government, one must consider a minimum of six variables.

One is the number of political units; i.e., political parties. We must determine what is a political unit; how many such units there are; and how many of those will combine to form the coalition. Will it be a two-party coalition, or perhaps a three-party coalition? When even a two-party coalition is difficult, for Japan to talk abruptly about a four-party coalition is completely unreasonable.

The second variable is the relative size of the various parties. What size is the party which leads the orchestra and the party which plays second violin, and the lesser parties? If the "second violin" party plays too loudly, the discord will be audible immediately.

The third variable is the differences in policies between the different parties. There are various ways to gauge these differences, such as whether the parties are socialist or nonsocialist, conservative or reformist, religious or secular, rural or urban, and producer-oriented or consumer-oriented.

When parties which stand side-by-side form a coalition, we call this an "adjacent party coalition." In a case where the JSP, DSP, and the United Social Democratic Party [USDP] formed a coalition, this would be very easy to understand. On the other hand, the JSP could also leave out the centrist parties and form a bridge-type coalition with the LDP. A bridge-type coalition would be technically difficult, but such a coalition existed in West Germany from 1966 to 1969.

The fourth variable is the problem of the strength of the ideology of each party. In other words, is a party pragmatic enough to compromise to a certain degree in order to take power, or does it feel that if it must sully the purity of its ideas, then it does not want political power?

In the discussions about a four-party coalition in Japan, the old left wing of the JSP was a group which emphasized the relative purity of its ideology, while the DSP, which split from the JSP saying that a party which does not take power is like a cat which doesn't catch mice, is a pragmatic party. In that sense the DSP is closer to the Komeito, which is more inclined to pragmatism than to ideology, than to the JSP.

The fifth variable is the direction of political activity. Does a party act "centripetally" in pursuit of political power, or does it compete "centrifugally," disconnected from power? On this point, since the beginning of the 1970's Japan's political parties have all competed centripetally. That is one fundamental reason why Japan's political situation since the 1970's is called the age of coalition politics. In Japan at the present time, there are no parties which say "we do not want political power; we will defend our glorious isolation from the world of politics." Even the Communist Party is interested in power; they have said that "to exclude us from the four party discussions [JSP, DSP, Komeito and USDP] is inexcusable." This kind of situation makes it intrinsically easier to achieve a political coalition.

The sixth variable is the scale of the coalition. There are three possibilities here; the coalition to be formed could be a "minimal victory coalition," or an "oversized coalition," or an "insufficient coalition."

A minimal victory coalition government is one which includes all the parties necessary to win a parliamentary majority, and no parties which are not necessary; such a coalition is extremely stable. That is because cabinet posts can be allotted fairly.

An oversized coalition government is one which embraces not just the parties necessary for a majority of seats, but additional parties as well. From time to time political circumstances make this necessary; for example, the LDP and the DSP may form a coalition and have a majority of seats, but based on past events, including the Komeito, which lies between the LDP and DSP, in the coalition would have a bonding effect, and the Komeito would be easy to include. The Katayama and Ashida cabinets started essentially as oversized coalitions. However, while a minimal victory coalition can fairly distribute cabinet posts, when those additional parties are added a sense of unfairness can appear, along with movement toward dissolving the coalition.

Finally, an insufficient coalition government is one which, although a coalition, falls somewhat short of a majority. This too is something which political circumstances sometimes bring about. In fact, the talks on a four-party coalition government were actually aiming at this. There was a vague idea that even if the JSP, Komeito, DSP, and USDP could not form a majority by themselves, if adding the Communist Party's seats would give them more seats than the LDP, the Communist Party would not form a bridge coalition with the LDP but would cooperate informally with the four-party coalition from outside the cabinet.

Looking at the problem in this way, we see that the four-party coalition did not work out because Japan's medium constituency electoral system makes consultation difficult, and because of the great differences between the parties in the strengths of their ideologies and in party policies, but especially because four coalition parties is too large a number. Every time anything needed to be decided it would have had to be brought by all four parties back to party headquarters and disseminated throughout each party; four parties is too many.

If we consider the task now facing the opposition parties in this context, first of all the JSP, which greatly increased its strength in the last election, should bow its head and request that the USDP rejoin it. If those two parties can unite a non-Communist opposition coalition would have only three parties. The united party would also be rich in human resources; the USDP has people such as Mr. Eda and Mr. Sugoo who have strong support from the public. The next step would be for the JSP to solicit the DSP, which is politically "adjacent" to it.

Then, if that works out, that combined party could form a two-party coalition with the Komeito.

Even countries experienced at coalition politics have coalitions of no more than three parties, so a four-party coalition in Japan would be impossible. Rather, it is more realistic to speak about how to bring about a two-party or three-party coalition.

In conclusion, the fact that the 1990's are the age of multiparty coalition politics is ultimately connected with a reorganization of the world of politics. For the JSP to make the leap from being the number-one opposition party to being accepted by the voters as the ruling party, it will have to take that sort of initiative and push forward with it; and it will have to increase its human resources, and exhibit both desire and the power to act.

The Course of the LDP, Komeito, and DSP

Kunimasa: It is certainly true that the labor front has unified in the form of "Rengo" [National Confederation of Trade Unions.] The opposition parties must do something similar. On that point, looking at the results of the last election, Mr. Eda of the USDP is quite flexible; he has acted as if his party could join the JSP at any time. The problem is the DSP, but now that the DSP has lost so much strength, the feeling should appear in the party that "rather than approaching the LDP and being absorbed into it, [it would be better to work with the JSP.]" Thus if the JSP actively takes the initiative, the JSP, DSP, and USDP can become one party. The next step would be to sound out the Komeito. That would be difficult, but it is certain that if the JSP did not do it, it would not be possible to realize a coalition government from the JSP side. I think that the composition will be simplified according to this outline.

However, up until now, as the late Ikko Kasuga already observed, "the theory has been appended after the fact." The coalition problem appeared after the Tanaka government, and certainly showed up when the LDP was close to losing its majority, but the idea was always that a coalition would be made up of the LDP, Komeito, and DSP. Immediately after the Tanaka government fell due to problems with financial influence and financial support, both the Komeito and the DSP worked to lure Takeo Miki away and break up the LDP, and form the core of a new party together with Saburo Eda's group from the JSP. Kasuga and Ryosaku Sasaki from the DSP, Yoshikatsu Takeiri and Junya Yano from the Komeito, and Mr. Eda participated in the effort. This group got to the point of concluding basic policies and priority policies, but it collapsed because of Shiina's decision which created the Miki government.

Later, during the time of the Ohira cabinet in 1979, when the LDP's strength plunged to 248 seats in the "General Consumption Tax Election," Takeiri and Sasaki were once again at the center of efforts to form what Ohira called a "partial coalition." Ultimately the group's only success was in taking a conservative, centrist line and persuading Shunichi Suzuki to run for Governor of Tokyo, but in budget deliberations the budget was redone taking into account the opinions of the Komeito and the DSP.

Still later, when there was talk of "dropping Nakasone and backing Nikaido," if we look at the concrete movements in the political arena, we again see that both the Komeito and the DSP to all appearances turned not to the JSP, but to the LDP.

Then, Kanemaru and Takeshita's speeches after the recent general election, or during the election campaign, argued for a reorganization of the political world with the premise that the LDP would take in both the Komeito and the DSP; this seems like a partial coalition.

Okazawa: I think that a coalition of the LDP, Komeito, and DSP would be fine. In any case, I think that for one or two opposition parties to be added to the government, and to build up experience in governing, could trigger the energizing of Japanese party politics.

Kunimasa: I was expecting that that would start to happen.

Okazawa: However, if an LDP-Komeito-DSP coalition were formed, if one of the other supposed coalition partners [the JSP or the USDP] complained of "betrayal," I think the coalition would collapse.

To begin with a centrist political party can only be centrist when there is a left and a right. Therefore a centrist party cannot determine its position by itself. To move to the right and to the left is not betrayal or anything like it. Because the centrist parties were looked at disapprovingly each time they made such movements, a coalition government did not come to fruition.

As long as Japan's current election system continues, I cannot imagine the JSP gaining experience in governing except by means of a coalition. I understand that the JSP cannot win 260 seats in the Diet [i.e. a majority in the lower house], and yet I feel that Japan's opposition parties are certainly not behaving responsibly in not making efforts to study and practice the theory of coalitions.

Kunimasa: For the time being I think it will continue to be that way. It is true that as a result of the last election, discussion has become focused on how the LDP will take in the Komeito and the DSP, but considering what would inevitably happen after the parties are brought into the LDP, the Komeito and the DSP will not be able to simply say "OK, we will gladly cooperate."

In the case of the Komeito, what will be the judgment of the Soka Gakkai [a religious group which is the party's main source of support]? In the case of the DSP, Domei [Japanese Confederation of Labor, which supported the DSP] has broken up, and those who shifted to Rengo are probably more-or-less in the clear, but the DSP is split between people who advocate returning to the JSP along with the USDP, and those who say that the DSP cannot afford to do that; that instead it should join hands with

the LDP. After the general election, someone was heard to say that "A DSP candidate who up until now had been supported by Shin-Nichitetsu [a steel company] lost the election. This was because the LDP took votes away from the DSP in an entire-company election, and it means that the LDP has stopped telling companies to 'Look after the DSP a little.'" I have a feeling that for at least the next year or two no choice will be possible. Therefore I think the discussions of political reorganization and coalition government will fade away, and both the Komeito and the DSP will cooperate with the LDP in the Diet at the policy level.

In the past, although the situation was not ideal, Mr. Kasuga and Mr. Sasaki took the lead in the DSP; and Mr. Takeiri and Mr. Yano took the lead in the Komeito. However, now we cannot expect either Mr. Nagasue [of the DSP] or Mr. Ishida [of the Komeito] to do the same thing. Thus concerning the budget and the making of policy, those parties will no doubt join hands with the LDP while being guided by it.

Okazawa: There is probably one other completely different possibility. That is the possibility that the JSP takes hegemony over the reorganization of the political world, and that when it spreads its wings to encompass the DSP and USDP, the JSP itself will be split into left and right halves. Then if the LDP is split between urban conservatives and rural conservatives, with each joining up with part of the divided JSP, it is possible that ultimately Japan will have a system of two large conservative parties. That would be a large-scale political reorganization encompassing all political parties.

In other words, I believe that with the current political party system, Japan will not be able to solve the policy problems it will face between now and the beginning of the 21st century. There are too many policy problems which cannot be solved except on the basis of the cooperation and collaboration of various groups such as labor and management, conservatives and reformers, socialists and non-socialists. These are problems such as the reduction of working hours, the protection of the environment, and in a more vivid example, Japan's advance into the expanded European Community market. People in Europe live under social-democratic governments. In Japan under the traditional one-party rule of the LDP, surely more and more domestic and international problems will become unsolvable, and in that sense I have the feeling that during the 1990's the political world will swing to the right and to the left, and gradually move toward a coalition while the parties learn to work together.

Kunimasa: There will also be reverberations of that kind within the political parties. In the case of the LDP, the torch of government will be passed once more to a new leader. Most people within the party say that the new leader will be Mr. Abe; backing that up is the judgment that "Prime Minister Kaifu cannot cope with the problems arising in today's international society. Either Abe or Miyazawa would have the ability and the experience to adapt to the changing world." On this point, I think that for both the ruling party and the opposition, problems will begin to break out both internally and externally.

Okazawa: This election did not produce the drama that had been expected, but as far as forecasting the course of party politics in the 1990's goes, it was certainly not a meaningless election. I think it is safe to conclude that if we analyze it thoroughly, this election in fact had a number of very interesting aspects.

[SEKAI] How to respond to the international problems is an important question. There is the fear that the people will hold on to an exclusionary economic nationalism, and that as a result the reform of the make-up of the LDP will be retarded, and the party and the people will together take the road of isolation.

Kunimasa: That is related to former Deputy Prime Minister Kanemaru's pet theory that Japan should form a national unity government to cope with foreign pressure.

Kaifu's High Popularity Rating Analyzed

OW0206074190 Tokyo THE JAPAN TIMES in English 1 Jun 90 p 22—FOR OFFICIAL USE ONLY

["Opinion" column by Minoru Tada: "Kaifu Now Riding High"]

[Text] Public opinion polls by various vernacular newspapers show that the Liberal-Democratic government of Prime Minister Toshiki Kaifu enjoys a near record high popularity rating, surpassed by only two other Cabinets in the party's history. This is a truly amazing recovery of popular support when we recall the public criticism of and anger at the ruling party following the disclosure of the Recruit affair and the introduction of the consumption tax.

The ASAHI SHIMBUN survey showed a 52 percent popular support for the Kaifu Cabinet. The highest figure for an LDP [Liberal Democratic Party] government registered in an ASAHI poll was the 62 percent for the Kakuei Tanaka Cabinet in its early stage. The highest popularity rating halfway was the 53 percent given the Yasuhiro Nakasone Cabinet. The last two figures came when the LDP government was in full sail, however. The popularity rating of the Kaifu Cabinet is indeed surprising given the fact that it has not yet completely ridden out the headwinds.

This writer has pointed out more than once that the Kaifu government has a very weak base, indeed the weakest of any LDP administration since the party's founding in 1955. This is not because Kaifu comes from a minority faction within the party, but because the LDP became the minority in the Upper House for the first time in the election for that chamber held last year, making it very difficult for the LDP government to have its way at will on all matters.

Moreover, big problems stand in the way of smooth government—land reform, the persistent economic frictions with the United States, political reform, and the need to change the social structure—all urgent matters. Kaifu himself rose to power without sufficient experience to handle affairs of state. In fact, he was a temporary choice of the party bosses.

Why then is the Kaifu government enjoying such wide popular support? Why do the people hold such great expectations for his government?

First, it is Kaifu personally as a politican. He is relatively young. He is trying hard to respond to the people's wishes. He has a plus in this respect. Kaifu is an eloquent speaker. Former Prime Minister Nakasone was also eloquent of speech, but what differentiates Kaifu is that he has less philosophy but more sincerity. The fact that the Japanese people traditionally tend to side with the weak is also at work in favor of Kaifu. Moreover, he has tried to follow the teachings of his mentor, the late Prime Minister Takeo Miki, who was known as "Mr. Clean." Kaifu has excluded people tainted by the Lockheed and Recruit scandals from his cabinet.

Second, Kaifu has the full support of the Takeshita faction, the largest in the LDP, which thinks the Kaifu government is the best choice for the moment. Moreover, the other factions know that no government can operate effectively without the support of the Takeshita group. Besides, why attack the Kaifu govenrment when it enjoys such wide popular support? Doing so could even boomerang on the attackers.

A third reason is the Kaifu government's landslide victory in the general election last February. The government also handled the structural impediments talks with the U.S. relatively well, and similarly the Diet steering. For the moment, the U.S. has recognized the efforts Japan is making in structural matters, and in Japan itself only the special-interest groups continue to protest. To be sure, the government may face truly stiff opposition in the actual implementation of reforms. Still, President George Bush's public support of Kaifu has had the effect of bolstering the prime minister's position.

Fourth, the disarray in the opposition parties helped Kaifu. Following their crushing defeat in the general election, the centrist Komeito and Democratic Socialist Party [DSP] withdrew from the plan to eventually form a coalition with the Japan Socialist Party, which had made very impressive gains at the polls, and criticized the JSP as an unrealistic party. The two parties thus laid the groundwork for their possible participation in an LDP-led coalition in the future. This has made Diet steering unexpectedly easier for the Kaifu government.

Even more helpful to the Kaifu government is that these developments have thrown the JSP into a state of bewilderment. Bound by the desire to meet the popular wish for a coalition of opposition forces, the JSP has been going this or that way weighing the significance of anything resulting from interactions among the LDP, Komeito and the DSP. As a consequence, this is helping the LDP.

Prime Minister Kaifu also won public support by his statement that he is staking the life of his government on achieving political reform, including a change in the electoral constituency system. In this connection, the wish of Kaifu's mentor, Miki, was to carry out a true political housecleaning. How will the people's evaluation of Kaifu change if they conclude that the primary aim of political reform is to realize the single-seat constituency system which generally will favor the LDP.

Miyazawa Said To Eye Post of Prime Minister

OW0506102090 Tokyo MAINICHI DAILY NEWS in English 4 Jun 90 p 1—FOR OFFICIAL USE ONLY

[Text] Kiichi Miyazawa, the reserved and politically unobtrusive leader of a Liberal-Democratic Party (LDP) faction, who was implicated in the Recruit scandal and resigned his position as finance minister, seems to have made up his mind to be the next prime minister. As a sign of this Miyazawa has recently met with several high-ranking officials of the LDP faction led by former Prime Minister Noboru Takeshita.

A Miyazawa faction official explained; "There is more meaning in the meeting than in what they talk about. For instance, he has been able to get some things off his chest that were weighing heavily on him."

On May 26, Miyazawa met with Shin Kanemaru, the chairman of the Takeshita faction and former deputy prime minister. The two have not had an exactly congenial relationship. The antagonism was seen most recently when Miyazawa warned Kanemaru about his rash behavior concerning the northern islands issue with the Soviet Union.

But friction dates back at least to 1986 when they differed on who would succeed former Prime Minister Yasuhiro Nakasone, and last summer over the replacement for former Prime Minister Sosuke Uno. But officials within the Miyazawa faction realized that if their leader is to have any hope of following Toshiki Kaifu as prime minister, relations must be restored with the largest LDP group—the Takeshita faction.

Miyazawa recently met Kanemaru in Tokyo at a wedding reception for a businessman's daughter. At that time he reportedly walked over to where Kanemaru was sitting and spent about 10 minutes talking about future defense programs. The meeting was short, but when turning to go, Miyazawa expresed his wish to meet again soon.

Another Takeshita faction member with whom he has met is Ichiro Ozawa, secretary general of the LDP. At this meeting on May 18, the two traded views on revisions to the electoral system, and parted with the promise of meeting more often.

Further, on May 30, Miyazawa went golfing with a couple of Takeshita faction members—former Chief Cabinet Secretary Keizo Obuchi and former Minister of International Trade and Industry Seiroku Kajiyama—along with a couple of members from his own faction. After golfing, he came back to Tokyo for a social gathering, where Ozawa and another Takeshita faction member, Kanezo Muraoka, chairman of the Diet Affairs Committee, showed up.

Another sign of his intent to become premier was seen in the outright way in which he showed his unofficial acceptance of becoming the leader of a non-partisan group of Diet members to visit the United States this summer. A faction official says the usually humble Miyazawa saw it as a chance to clear the aftereffects of the Recruit scandal on the LDP level once and for all.

This does not necessarily mean that Miyazawa has become the leading contender for the prime ministership. But, Takeshita faction officials say rather, his work toward that goal has just begun.

Tries 'To Mend Fences'

OW0306124190 Tokyo THE DAILY YOMIURI in English 2 Jun 90 p 3—FOR OFFICIAL USE ONLY

["Political Beat" column by Hitoshi Matsumoto: "Miyazawa Courting Kanemaru"]

[Text] The recent attempt by former Finance Minister Kiichi Miyazawa to mend fences with former Deputy Prime Minister Shin Kanemaru has been attracting a lot of attention in the Nagatacho district. At least on the surface, it seems that peace once again reigns among the factions of the Liberal Democratic Party [LDP], since LDP power-brokers have at least temporarily tabled their plots to bring down Prime Minister Toshiki Kaifu.

In line with Miyazawa's approaches to Kanemaru, young executive members of the Miyazawa faction are reportedly trying hard to build friendly relations with the Takeshita faction, which Kanemaru now heads, by entertaining members of the No. 1 faction on golf courses and at dinner parties.

"I receive an invitation to some sort of entertainment from Miyazawa faction members at least once a week. Naturally, I can only accept such invitations once or twice a month," bragged an up- and-coming member of the Takeshita faction.

Many political pundits interpret Miyazawa's sudden approach to the Takeshita faction as evidence that Miyazawa has finally realized that he can only attain the party's top post with support from Kanemaru and the Takeshita faction. Miyazawa's life-long dream of becoming Japan's prime minister will be completely shattered if he loses in the next election for the LDP presidency, scheduled for next year.

Former LDP Secretary General Shintaro Abe is still viewed as Kaifu's successor, but Abe's failing health has been increasing the uncertainty in the top leadership race. Encouraged by a recent rumor that Takeshita had broken away from Abe, Miyazawa is clinging to his last hopes of becoming prime minister.

A May 26 wedding reception, to which both Miyazawa and Kanemaru were invited, became the occasion for the first round of talks between the two LDP powerbrokers. The meeting itself lasted for only 15 minutes, but Miyazawa made the gesture of moving to Kanemaru's table for the tete-a-tete.

The two are expected to meet again for a second round of talks shortly.

"It was quite a move for such a shy person like Miyazawa," said a LDP executive member who is close to Miyazawa. Miyazawa and Kanemaru are poles apart in their personalities and their approaches to politics.

Miyazawa is an internationally-minded intellectual who is often seen reading newspapers and magazines in English during breaks in Diet sessions. Backed by his language skill and deep political analysis, Miyazawa is the leader of similarly intellectual Diet members.

Kanemaru, on the other hand, is the typical party politician. He once called a parabola antenna a "bara-bara antenna," literally "a fallen-apart antena," and said "time merit" when he tried to mean "time limit."

No one can deny his skill as a manipulator of backroom politics, but many say he has attained his present position principally by the power of money, backroom dealing, and intimidation.

Understandably, the two politicians have been at odds for a long time.

Their relationship became further aggravated when the Miyazawa faction tried to support present Finance Minister Ryutaro Hashimoto as the party's new leader to succeed Sosuke Uno, although the Takeshita faction had decided to support Kaifu.

Now, however, Miyazawa has determined that he can never become the prime minister without the support of Kanemaru and the Takeshita faction. He is forced to woo them regardless of his personal likes and dislikes.

Politicians generally feel flattered and their egos are boosted when they are humbly asked for support, and Kanemaru is certainly no exception. In fact, Kanemaru proudly tells his aides that he has made it a rule never to reject anyone who tries to get "under his umbrella." However, this does not necessarily mean that Kanemaru has agreed to support Miyazawa in his last shot for the top LDP spot. Miyazawa himself knows life is not that easy.

Abe is still Kanemaru's favorite for the next prime minister. Many political experts predict that if Abe's

failing health prevents him from running in the next party president election, Kanemaru will probably support Kaifu for a second term.

Some people say that LDP Secretary General Ichiro Ozawa also has a chance at gaining Kanemaru's favor.

Economic

* Effect of Triple Fall of Stocks, Bonds, Yen

* Economist Analyzes Situation

902A0163A Tokyo SHUKAN DAIYAMONDO in Japanese 7 Apr 90 pp 46-50—FOR OFFICIAL USE ONLY

["Crisis analysis" by Society General Securities research division chief Ken Tsubouchi: "How Tolerable Are the Triple Losses?"]

[Text] The triple loss in stocks, bonds and the yen has advanced another step. The question is the influence of this on the overall economy, and whether or not it is a setback for the up-to-now incomparably good business climate. A special series is presented here consisting of two articles: the first a macro-analysis by economist Ken Tsubouchi and the second an overview done by this journal's editorial department of 15 major industries in the three areas of: supply and demand, market conditions, and earnings. Although there will be rough going, the staying power of these industries is still high. Even so, they appear to have reached their zenith.

"Flow" and "Stock" Adjustments Advance

Since the beginning of the year, a triply linked loss in stocks, bonds (the rise in interest rates) and the yen has been taking place. When we look at the movement of the exchange rate, interest rates and stocks from the end of December through 23 March, there has been a drop in the yen against the dollar of 11.67 yen, the government securities index has risen 1.425 percent, and the Nikkei stock average has dropped 22 percent. The ratio of the drop in the value of stock measured against the increase in interest rates is greater than when measured against the drop in the yen. The reason is that investors in stocks and bonds have overreacted, causing the distended "speculative bubble" in both the stock and bond markets to burst.

Everything has value from a flow basis (productivity and earnings power) and value from a stock basis (assets). In a world with scarce "reserve assets," the difference between the flow-based appraised value and the stock-based appraised value is small because the stock-based value comes close to having discounted, through interest, the derived flow to its current value. In contrast, in a world with copious "reserve assets," the difference between the two appraised values is great. We can say that Japan is a country with copious reserve assets, while other Organization for Economic Cooperation and Development [OECD] countries, represented by the United States, have scarce reserve assets. Once among the economically weak countries not having much impact on the world economy, Japan alone has been permitted "reserve assets," but now that it is an economically strong country the situation has changed. In the process of the world's becoming a single market, that Japan alone should have enormous credit and financial strength based on its reserve assets will no longer be tolerated. One of the chief reasons for the current weak yen and weak stock prices is that the dissociation between value as seen from a flow base and value as seen from a stock base has expanded to the point where the dissociation is unsustainable. It follows therefore that the drop in the yen and in stock prices will continue to a level where equilibrium between stock-based value and flow-based value can be achieved. Except that with this adjustment there is the need for a "soft landing" made over an extended period of time.

The far greater rate of correction in stock prices since the beginning of the year as compared to the yen is due to the difference in the timing of the corrections in stocks and the yen and the difference in the timing of the bursting of the "speculative bubble." The yen reached its peak value of 121.15 yen to the dollar on 11 November 1988, and then made a gradual 28.0 percent correction over a period of 16 months until it dropped to 155.07 yen to the dollar on 23 March 1990. Stocks reached their peak value on 29 December 1989, at 38,915.87 yen, and by 23 March had weakened to 30,372.16 yen, a sharp adjustment of 22.0 percent in only three months.

There is the possibility in the future of a continued weakening of both the yen and stocks, but eventually the degree to which stocks react to drops in the yen will probably be small. The fundamental process, which linked the drop in the yen to the drop in stocks, is a mid to long-term business recession caused by a boost in interest rates, and was not a short-term selling of stock caused by an outward flow of capital in turn caused by a weak yen. Further, because in the current correction process that portion of the bubble which both the exchange rate and stocks overshot by a wide margin has appropriately disappeared, future corrections for both will undoubtedly be gradual.

The Merits and Demerits of Stock Transformation

The start of the stock [as opposed to flow] transformation of Japan's economy was the "Plaza Accord" in September of 1985. In the Plaza Accord, the United States, realizing in its rapidly rising trade deficit the weakening of its economic strength, did a 180-degree turnabout from a strong dollar, its official policy until then, to a weak dollar. The result was that the yen, which before then had been broadly criticized as undervalued, rose sharply in a little less than three years from a base of 260 yen to the dollar to a base of 120 yen. A government policy of "moderating the super money supply" was adopted in order to provide for an epoch-making enlargement of domestic demand, which had been promised internationally, and to mitigate the gigantic effect of

deflation caused by the sharp strengthening of the yen. With the Plaza Accord, the official bank rate of 5 percent per annum was lowered five times until it reached its historic low of 2.5 percent per annum in February of 1987.

Based on the government policy of moderating the super money supply, the stock transformation of the economy went forward. The "merit" of that transformation was that it adroitly brought about a shift to an economy driven by domestic demand rather than rising stock and land prices and that it brought about the current king-size business boom. On the other hand, the "demerit" of the transformation was the broadening to a discouraging degree of the distinction between the "haves" and the "have-nots" and the major dissociation that has arisen between flow-based value and stock-based value caused by high land and stock prices.

The scale of capital gains in stocks and land has sharply expanded since 1986. The total for 1986 was 236 trillion yen in land and 121 trillion yen in stocks, for a total of 357 trillion yen, or 1.08 times the nominal GNP of 331 trillion yen; in 1987, the land value was 359 trillion yen and the stock value 99 trillion yen, for a total of 458 trillion yen, or 1.33 times the nominal GNP of 345 trillion yen; and in 1988, land was 132 trillion yen and stocks 184 trillion yen, for a total of 316 trillion yen, which was 0.86 times the nominal GNP of 367 trillion yen, and these are enormous sums. With the close of this period at the end of 1988, the portion amassed as current reserve assets was land 342 trillion yen, and stocks 170 trillion yen, for a total of 512 trillion yen.

The Business Environment and Crumbling Stock Prices

With the development of the stock-basis transformation of the economy, a phenomenal distinction in assets is occurring between the haves and the have-nots. The results of a study done by the Life Insurance Culture Center show that for people who, from their parents, inherit property in metropolitan environs suitable for housing compared to people who don't inherit property, it is the same as increasing lifetime earnings by 10 million yen. The biggest demerit of a stock-based economy that separates it from a flow-based economy is the fact that from the outset people who work lose their desire to work and lose sight of the significance of their labor. Correction of the stock-based transformation is necessary.

The fall in stock prices since the beginning of the year has caused the total current value of stock to shrink 140 trillion yen. It is apparent that there are a variety of influences at work in the actual economy, so let's first look at the relationship since World War II between the business cycle and fluctuations in stock prices.

In October 1974, the relationship between stock price fluctuations and the business cycle was broken. Until October 1974, stock prices functioned extremely well as a predictor of the business cycle, but since then the relationship between the two has all but disappeared. For this reason, in April 1987, the Economic Planning Agency, on reforming the essential constituent components of the index of leading business indicators, eliminated stock prices.

The collapse in the relationship between stock price fluctuation and the business cycle means that the object economy and the money economy are beginning to disengage. Among the factors causing this disengagement are: a) movement toward a short-term growth economy and shrinkage (increase in stability) in the fluctuation rate of the business cycle caused by it; b) progress on the structural excess supply of money, and; c) progress in the structural tightening up of supply and demand in stocks.

Among the factors causing the narrowing and the lengthening of the fluctuation rate in the business cycle since the shift to a short-term growth economy are: 1) broadly based shrinkage in the cyclical movement of government expenditures, including moving expenses; 2) a broadly based lowering of the weighting for inventory investment calculations in the GNP; 3) the pace of capital spending in every industry and the combined narrowing and lengthening of the fluctuation rate in capital spending caused by the increased weight given to strong and sustained research and development spending.

Excess money supply involves such factors as: a) a quantity of money large in comparison to the movement of the object economy; b) savings for the country as a whole in excess of the balance between savings and investment; and c) having money, which is highly liquid, on hand.

The Marshall K (money supply [the amount of money in circulation]/nominal GNP) is the representative index that discloses excess money, and the associated numbers show a consistent upward trend from 81.7 in 1975 to 120.0 in 1989. Cash flow has been positive during periods of excess saving as measured by the balance of savings and investment for the country as a whole, but since 1981 the numbers have been consistently in the black. The corporate ratio of cash on hand also has been rising, with 1.12 months available in March 1985 and 2.04 months in March 1990. With the above surplus of cash, there has been no need to sell stock even with a business recession; on the contrary, a "recession stock market rise" took place in response to the lowering of interest rates.

A tightening up of the supply and demand structure for stock has gone forward in such ways as: 1) the fact that the rate of new issues of stock has been less than the expansion rate of the nominal GNP; 2) the fact that the growth rate of personal liquid assets has been greater than the growth rate of the GNP, and; 3) the fact that corporations and financial bodies important to the stability of stocks have been increasing their ratio of stocks held. In particular, the progress toward tightening up the supply and demand structure of stocks and excess money since 1986 has been remarkable, and the degree of disengagement between the object economy and the money economy has heightened. Still, not to be forgotten

is that prior to October 1974, even though the business climate clearly was a precursor of stock prices, a drop in stock prices was absolutely the result of an anticipated business recession and not the reason for the business recession.

Meager Influence on the Object Economy

The object economy is formed by family, corporate and government consumption, investment behavior and trade. Because the GNP is a national aggregation of the total value of goods and services generated in a one year period, the GNP itself reveals most clearly the movement of the object economy. On the other hand, those things which most clearly reveal the movement of the money economy are the total value of stock, the money supply, personal liquid assets, and so on.

It can be imagined that when movements in the object economy and the money economy are tightly connected, the relationships between such things as nominal GNP, total value of stock, the money supply and personal liquid assets are also stable. As one considers the degree of dissociation between the object economy and the money economy, even though the degree of dissociation was pronounced following the baseline year 1974, since 1986 the degree of separation has expanded immensely, and the two economies, object and money, are now distinct. The primary reasons are: 1) substantial working surpluses reflected in the excess balance of savings over investment; 2) the easing of super money since the Plaza Accord; and 3) substantial deflation based on a strong yen—but number 1) is particularly important. The positive cash flow from the standpoint of the international cash flow account corresponds to the savings and investment gap (savings excess) from the standpoint of the national income account. Japan's cash flow shifted to the black from 1981 and, seen as a ratio of nominal GNP, the total positive cash flow expanded sharply to 4.3 percent in 1986, and after 1986 the excess liquidity market became its main engine.

What caused excess savings was inadequate public and corporate sector savings reform. That is to say, sluggish corporate activity and the reduction of fiscal red ink brought on excess saving (excess money) for Japan as a whole. Since then, the excess savings rate for the country as a whole as a function of nominal GNP—1987 (3.6 percent), 1988 (2.8 percent) and 1989 (2.0 percent)—has continued to drop. The primary reason for reduction in the excessive savings rate has been activity in housing starts, capital spending, and personal consumption. The average real GNP growth rate for the three-year period from 1987 to 1989 was 5.1 percent, which exceeded the potential GNP growth rate (about 4.0 percent), but even that notwithstanding, there remains excess saving in large quantity. This means that within Japan there is structural excess saving that is intractable.

The reverse side to excess saving is inadequate capital spending and inadequate consumption. That is to say, there are forces within Japan structurally hindering the expansion of spending and consumption. In sum, the dissociation between the current object economy and the money economy arose because there have been no adequate opportunities domestically for spending and consumption, and it is the chief cause excess saving. With the huge dissociation between the object economy and the money economy, even if there were a certain measure of shock to the money economy, the impact on the object economy couldn't be imagined to be that great.

The ratio of Tokyo Stock Exchange aggregate value of first-section listed stocks to personal liquid assets entered superheated waters exceeding even the 1972 occasion of excessive market prices, and the overshoot in stock prices was evident even in the money economy.

Earlier Over-Reaction of Stock Prices to the Weak Yen

Insofar as the rise in interest rates is linked directly to a weak yen and weak stock prices, it is illogical that the weak yen and no rise in interest rates should also cause a drop in stock prices. Because Japan's current real long-term interest rates, already about one percent higher than America's, have exceeded the peak increase in international interest rates, led by West Germany, in the future, even were the yen to weaken steadily, the effect on interest rates wouldn't be bad.

Further, a major cause for the sharp drop in stock prices at the beginning of the year was the bursting of the "speculative bubble," and the drop in the yen was simply an inducement for that bubble to burst. With the sharp drop in stock prices at the beginning of the year, it is probable that the period of the stock market's over-reaction to the drop in the yen has passed. In the future it probably would make sense not to be nervous that stock prices will fall because the yen has fallen.

When one considers the chief effects of a weak yen on industry and the object economy, there are such things as: 1) A rise in interest rates caused by an increased inflation rate in turn caused by an increase in the cost of imported goods; 2) The effect of the exodus overseas of domestic purchasing power caused by worsening terms of trade, and; 3) Improvement in export profits. Taken together, there is a powerful negative effect. According to a Bank of Japan estimate, a 10 percent drop in the yen will generate a 1.7 percent rise in retail prices. The average rate of exchange for the yen in 1989 was 138 to the dollar, which means that a 10 percent weaker yen would be 152 to the dollar. Since the upward effect on prices (1.2 percent) with the introduction of the consumption tax last April [1989] is known, arguably even if the average annual rate for the yen does increase to 152, the net upward pressure on price levels will be a small 0.5 percent.

If the rise in interest rates were indeed connected directly to a drop in the yen, the negative impact on business would be enormous. However, in considering this in terms of the level of current real interest rates, were the the yen to drop to, say, the 160 yen-to-the-dollar level, it would be difficult to imagine a major increase in nominal interest rates. The most frightening aspect of all this would be the heightening of an inflation psychology

brought on by the weaker yen, but even without that, the impact on business and the object economy of a weaker yen is not something to worry about all that much.

The chief consequences of the drop in stock prices are: 1) a rise in the cost of raising capital caused by a decline in equity financing (the raising of capital by the issuance of stock); and 2) restraints on consumption caused by adverse effects on assets. Last year, companies raised slightly less than 25 trillion yen on the stock market. Currently, corporate cash on hand is incredibly abundant due both to excellent business conditions and to the results of equity financing up to now.

According to a study done by the Bank of Japan on the short-term economic business outlook (February 1990), the cash flow ratio estimate for major industries at the end of June 1990 is a plus 1.81 months. The last time there was a comparable cash flow ratio was at the end of March 1972 when it was 1.73 months. Because there is adequate cash on hand to fund corporate activities, even were equity financing unavailable for an extended period, the effect on corporate core business would be trifling.

Although the anti-asset effect of the drop in stock prices will gradually generate restraint in the purchase of high valued items and luxury goods, the influence will not be all that great. Among the reasons for this are: 1) The impact domestically on assets caused by high land and stock prices will not be all that great, and will be compensated for in the form of appropriate outflow through such consumption as overseas travel; therefore, the anti-asset effect will be the same, and; 2) The fact that the focus of consumption is moving from the general household to the labor household suggests consumption strains with increased earnings.

By way of conclusion, there have been few major impacts on the object economy to the degree of the weaker yen and the fall of the stock market. However, it is also a fact that the current business outlook, characterized by a high-plateau attitude, has entered a phase of gentle deceleration when viewed in terms of cyclical theory.

* Overview of Market Conditions

90AO163B Tokyo SHUKAN DAIYAMONDO in Japanese 7 Apr 90 pp 52-62—FOR OFFICIAL USE ONLY

[An overview assembled by SHUKAN DAIYAMONDO's editorial department and part two of a two-article special series on Japan's balancing act with its economy, industry and stocks: "Market Conditions, Supply and Demand, and Earnings of Fifteen Major Industries; Automobiles and Home Appliances Uneasy Over Waning Consumption; Costs Are Up for Steel, Chemicals and Cement"]

[Text] Whatever the primary causes may be that have enveloped Japan's industry and enterprise, it will be rough going. With the fourth hike in the official discount rate on 20 March we have been more and more thrust into an era of high interest rates, and with the inching upward of the dollar and the weakening of the yen, with production rates dropping due to labor shortages, and with rising wages, sources of pressure on management are coming thick and fast. Will favorable conditions continue? Are we now facing an aberration or are we facing a downturn? The editors have attempted to discern the trends in business conditions for the major industries.

Drastic Change in the Business Environment

Dark clouds are obscuring the long-term boom we have been having. That we clearly have transitioned from a period of low interest rates to one of high interest rates, that on an international level the dollar is now purchased and the yen sold, that labor shortages in Japan have grown acute and that major industries and small and medium businesses are being dealt hard blows, and so on, all can be viewed as the focus of besieged corporations at this important juncture.

The yen is hovering near 160 to the dollar in the currency exchange market. Will the yen drop still further or not? Whatever happens, with the current situation in which the yen has dropped 30 to 40 yen from its former base of 120 yen to the dollar, many import industries whose very existence depends on importing finished goods and raw materials are being visited by rising costs.

On the other hand, the drop in the yen has caused a rally in export profits. Among industries with high export ratios, cement is the largest. The weak yen is the genesis of differentials between industries.

Although the Bank of Japan's official rate increase is prompting the purchase of the yen and has the objective of putting the brakes on the yen's declining value, it can also be expected to play a role in restraining rising commodity prices.

However, the boost in interest rates brought on by the increase in the official rate is like throwing cold water on corporate investment thinking. During periods of low interest rates, trends become apparent pointing to the amassing of strength by enterprises which have been making capital outlays, but in periods of increased interest costs, the effect is to make it difficult to forecast profits and the tendency therefore is to restrain capital spending. We have entered just such a period.

Also, while there are areas of economic growth and corporate profit, the stock market has become bearish due to the tapering off of major indicators. On 22 March, the Nikkei-Dow broke 30,000 yen, dropping to a floor of 28,000 yen. The drop was almost 10,000 yen from a peak of 38,900 yen.

A counter-productive effect of the drop in stock prices is a fear that has surfaced which is causing hesitancy in personal consumption, particularly in the demand for high-priced goods. Further, there is the negative effect in the short-term on corporate fund raising.

Those Urging Caution on the Increase

Even technical trading companies, who have have enhanced their earnings through manipulations in stock, are shifting to a policy of retrenched investment. Further, industries which were planning to raise capital through public offerings of stock and callable bond (CB) issues will hold them in abeyance due to the broad drop in stock prices.

Accordingly, some companies are considering any plans for capital spending to be madness and some have decided either to stop or to stretch out their plans. It means also that they want to take measure of where business conditions seem to be headed.

A study issued by the Bank of Japan on 6 March assessing corporate short-term finance concluded that following the third official rate hike, corporate management continued to hold unabated a high-plateau attitude. While there was a continuing labor shortage and a weak yen, and feelings of foreboding were in the air, on the whole, management had the sense that the good times would continue. The next official rate hike, the fourth, was a huge one percent. Small and medium businesses alike could not conceal their obvious uneasiness over the negative impact the hike would have on business conditions.

Corporate profit will probably have maintained its pace of growth through the first three months of 1990. However, for fiscal 1990, many take the cautious view that there will be a drop in profits or at least a sideways movement and there is a feeling of foreboding that is gaining strength concerning the shift in the corporate climate in such areas as the drop in the yen, high interest rates and labor shortages.

Automobiles—Despite Increasing Murkiness, Bullishness Persists

The Japan Automobile Manufacturers Association in its estimate of demand for fiscal 1990 came out this mid-March with its usual bullish assessment. "As for demand within the country for new automobiles in 1990, the sharp slowdown in the growth rate to a 1.7 percent rate of increase over the preceding year will not itself become an underlying trend, and the total [of registered] four-wheel passenger vehicles may reach 7.67 million units...."

According to the forecast, the estimated fiscal 1989 actual results show 5,863,400 registered [mid and large-size] automobiles, an increase of 17.8 percent over the preceding year, and 1.86 million mini cars, a drop of 5.2 percent. For fiscal 1990, the number of registered automobiles will reach 5.93 million vehicles (an increase of 1.1 percent over the preceding year) and 1.74 million mini cars (an increase of 3.6 percent), for a grand total of 7.67 million vehicles. Among the reasons given for the outlook is that despite a sharp slowdown in the business tempo, there is the stimulating effect on demand caused by the repeal of the commodity tax, and despite the introduction of the consumption tax, personal consumption will continue to be vigorous, and so on.

However, the recent drops in stocks and in the yen is not factored into their estimate of demand. In particular, the drop in stock prices contradicts the "asset effect" which was behind the boom in top-flight automobiles, which led the expanding demand of the past two years. For example, Mazda, having hit the market with its first "3" series license plate, large special use vehicle "Yunos-cosmo" (price 3.3 to 5.5 million yen), was forced to announce at a press conference a downward revision to 1,000 units of its month-long originally estimated sales target of 1,500 units. At present, while the influence of stock price drops and the weak yen is not yet apparent, future market trends are without doubt increasingly murky. Further, even among the makers of mini cars, who are universally eager to reverse last year's slump with new mini car models, there is increasing uneasiness that their bullish sales targets are not achievable.

For the past several years, the automobile market has continued making "happy miscalculations" which have seen sales sharply exceed the demand forecasts of the association. However, if there is any growth in fiscal 1990, this time it will be within the estimates.

Overview of Automobile Sales Showing Strong Domestic Demand and Reduced Exports (in thousands)

	Domestic Sales		Exports	
(fiscal year)	Registered Vehicles	Mini Cars	Registered Vehicles	Mini Cars
85	4,022.4	1,551.1	6,836.7	11.8
86	4,120.6	1,632.0	6,586.3	4.3
87	4,528.4	1,684.5	6,263.7	4.5
88	4,977.2	1,771.8	6,189.2	1.3
89(Estimated)	5,863.4	1,680.0	5,700.0	—
90(Projected)	5,930.0	1,740.0	5,600.0	—

Electronics—Growth in Spending on Information Pivotal

In the electronics industry, to include computers and communications, the current boost in interest rates and the sharp drop in stock prices "is causing anxiety concerning the effect on capital spending in the industry and on consumption," (president of Toshiba, Joichi Aoi); but despite that, we see peak investment in computers and communications continuing unabated.

Now, information transmission, which is driving computers and communications, is not mere rationalization but has enormous strategic significance. In order to beat the fierce competition, creation of strategic information systems (SIS) has become an urgent necessity, and long-term spending continues without regard for good or bad business conditions.

In particular, with computers, we see office automation (OA) machines, such as office computers and PC's,

pulling the market along, with the industry as a whole in fiscal 1990 maintaining a continuing double-digit growth. Even front-running Fujitsu sees a growth in office computers of 15 percent to 160 billion yen and in PC's a 40 percent growth to 180 billion yen (both fiscal 1990 figures), with a goal of 14 percent growth in overall receipts. There is a bullish feeling that mainframes, which have shown a tendency toward sluggish growth, "will show growth in receipts for machines newly introduced in fiscal 1990" (Fujitsu's general manager (Masutsune) Kuwahara).

Further, communications equipment, which had dropped in the first half of 1989, rebounded in the second half. Despite this, the growth of the domestic market stopped at 7 to 8 percent, while, on the other hand, the overseas market showed a growth of nearly 20 percent, with the rate of development centering on local production centers for overseas holding the key to business expansion.

Although some are taking a hard look at the semiconductor, which is the heart of the information revolution, saying, "The market will not rebound in the first half of 1990 sufficient to generate a feeling of satisfaction. For example, even should the market recover, there is the possibility of excess supply" (T. Matsumura, manager of Nihon Electric), the BB ratio (the ratio between the total orders received and the total shipped) for the United States, from December of last year, exceeded 1.0, and, on the whole, the view that we face a peak in the silicon cycle sometime this summer is convincing.

Electric Household Appliances—Warnings of a Drop in Consumer Purchases

The VTR, which Japan developed, generated a total of 2 trillion yen in revenue in 1984 and, as the biggest driver in the electric home appliance industry, went its own merry way.

But, peaking in 1984, the VTR, known as a "deck" and caught in the backwash of excessive competition, has seen production revenues dropping year by year. As of this year, the tendency has become more and more acute, and the number of domestically shipped units this year will be sharply lower than last year; in particular, during the first two months and 10 days of the year, there has been a drop of 20 percent.

According to fiscal year totals through the end of March, the view is now widespread that even the once downwardly revised forecast of 6.5 million units will not come to pass.

That is causing uncertainty as to the direction things are going. In the electric household appliance industry, there is a feeling in the air that the industry must keep tight hold on the reins. "Consumers are feeling uncertainty. Clearly, they will open their purses only to those goods having a great deal of appeal for them," (Sharp and Toshiba).

But that is because underlying today's demand for video decks is adding second machines or replacement purchasing. According to a study done by one front-line manufacturer, it involves nearly 60 percent of sales. Of that, more than half is due to the purchase of a second machine, such that if there were a recession, the effect on this portion of sales would be immediate and direct.

Still, coming to the rescue in video is a new market of "movie making" based on the integrated camera, which is expanding in use year by year. In 1989, 1.7 million units were produced, a 35 percent increase over the year before, with indications that this will be the area of focus this year.

With the likelihood of innovative product lines simultaneously hitting the market from every company, driven by Sony's smash hit the "TR55," some bullish manufacturers are seeing sales of 2.1 million units this year. They appear to be thinking that with this market share still just 14 percent, and that using methods for stimulating demand—"We can exploit the market much, much more"—they can sweep away the anxiety for the future in the home appliance industry through the rapid advance of this "movie making technology."

Machinery and Shipbuilding—For Now, Keeping an Eye on the Backlog

Although the backlog of orders for machinery remains at the flood stage, the backlog is constantly being reduced. Because machinery is a backlog-driven industry, it is very much affected by business conditions; but an extreme slowdown such as a general recession is not very thinkable. Machine tools in 1989, according to the industry association, achieved an all-time record backlog of orders of 1.2 trillion yen. The front-line manufacturers, altogether, are racing to establish an infrastructure for increased production. However, even so, the construction of new factories is going slower than anticipated, and it is a difficult to push up completion dates.

The machine tool industry, which by its very nature lives by wide swings in results, immediately generates red ink in periods of slump. However, it is hoped that because what is now being sought in machine tools is new and different, the industry will be less susceptible to changes in business conditions. The objective of capital spending in the machine tool industry is not increased production and simple renovation of facilities but involves modification of the production structure, automation and productivity. The case is not one of holding up on capital spending because there is a slump, but, on the contrary, it's making those necessary, rational outlays because there is a slump. However, in actuality, it is not clear that an industry predicated on demand should behave that way when there is a downturn. Press machines, injection machines, and other kinds of production machinery, are the same as machine tools. There are many small and medium component makers for whom labor shortages are serious, and for whom labor-saving investments are unavoidable.

Construction machinery is dominated by business conditions in the construction industry; on the other hand, demand has been expanding and the outlook remains bullish. Here too, labor shortages are increasing the demand for construction machinery.

We are told that there is a two-year backlog of orders in the shipbuilding industry and that increased production is being planned. Although the industry is moving to reopen every idle dock, the shortage of skilled workers is acute. Every shipbuilding company, having learned from past bitter experience, has given highest priority to ensuring profitability by improvement in payment clauses and concentrated backlog. However, many tanker companies are entering a new era and are anxious globally about the suppliability shortfall from here on. The relative importance of Japan's shipbuilding industry is enormous and it is seeking to establish the necessary supply structure.

Steel—With the High Cost of Raw Materials, Profit Growth Continues Dull

Steel has peaked. Raw steel production in fiscal 1989 is estimated to have been 108 million tons, and in fiscal 1990 is expected to be 105 million tons, which will be the fourth consecutive year that production has exceeded 100 million tons.

Brisk domestic demand continues. Construction, which accounts for about half of the demand for steel, is vigorous. Building construction and public infrastructure spending, which have gone hand in hand with the resurgence, have built up the demand. Both public infrastructure investment and building construction, with intelligent buildings that are riding the wave of information technology on the increase, are at the center of the objective for rationalization and efficient production. For this reason, the building boom is long-term.

With favorable domestic demand for automobiles, every automobile manufacturer has taken the bullish position of increasing production, and is predicting a strong market in automobiles. And, with the resurgence of shipbuilding beginning in 1989, shipbuilding is also on the upswing. Therefore, we can say that domestic demand for steel is universally strong, particularly in construction and shipbuilding with its two-year backlog, and apparently will see favorable domestic demand continue for the present.

On the other hand, exports are in a slump. The China trade has declined due to restrictive government policies. And, Southeast Asia trade is being held in check by the effect of a business slump in the United States. Exports in 1989 appear to have fallen below 20 million tons and are expected to drop again in fiscal 1990.

With the briskness of domestic demand, front-line steel achieved operating profits at the highest level in history during fiscal 1989, but the forecast is that in fiscal 1990 the rate of profit growth will be only single-digit. In addition to the reduction in raw steel production with exports slumping but with domestic demand maintaining its continuing favorable trend, the 15 percent increase in the base price of raw steel and the higher cost of raw materials will put pressure on profits. Although the pressure will be absorbed by rationalization, any increase in profits will be dull.

Within this picture, a painful spectacle continues for every company producing stainless steel sheet. In addition to the export slump that began in the summer of 1989, the domestic market has worsened. In order to correct for market conditions, the industry has reduced production capacity. The key to fiscal 1990 is whether or not the market decline will require that brakes be applied, but still there will likely be companies that will experience reduced profits.

Cement—Full Production, But Fear of Rising Costs

The cement industry, which has been riding Japan's construction boom, is beginning to feel uneasy about the shift in the business environment, with labor shortages, a weak yen, and high interest rates. The domestic demand for cement fell in 1985 but has made smooth progress from 1986 to 1989 (projected). During the extended period of favorable business conditions, public and private construction spending has burgeoned, causing the demand for cement to grow tremendously. It is estimated that in 1989 the total reached 7.9 million tons. Compared with 1979's 8.296 million tons and 1980's 9.029 million tons, that would be the third highest yearly total on record.

Large-scale projects, one after another, such as the construction of the new Kansai International Airport, the Tokyo causeway, and vigorous public capital spending across a broad scope of activities have brought on increased demand.

Moreover, increased orders for public construction, such as the development of leisure resorts, the increased construction of public housing, local roads, and the construction of water and sewer mains, have prompted a long-term increase in demand. The basis for this has not changed and it now appears that the demand for cement will continue at a peak level.

To answer the question of what effect high interest rates and the drop in stock prices will have in the immediate future on the cement industry requires an important degree of close scrutiny. There is a fear that the drop in stock prices will cause a lessening of the desire for investment on the demand side. Currently, investment constraints are occurring and we are about to see changes in planning for capital spending. How far will this go?

Due to the weak yen, imported cement from both Taiwan and South Korea, which have put pressure on domestic production, have temporarily gone up in price. Imports in fiscal 1989 apparently weakened by 4 million tons, and increased hardly at all when compared to fiscal 1988. That is because South Korea and Taiwan both

have favorable domestic demand and reserve export capacity has all but disappeared.

Most hold the view that the demand for cement is not expected to shoot straight up the way it has heretofore, but they do not see a major collapse either. The underlying concern is labor. The labor shortage continues to be acute and there is growing concern over a possible inability to respond to the backlog of orders. It's true both of production and of construction contracting, and will hinder the working off of the construction backlog, such that it wouldn't be difficult to imagine the labor shortage cooling off the demand for cement.

Because we are seeing an increased interest burden, a rise in the price of coal, and rising wages, the industry has increased the price of cement 500 to 1,000 yen per ton. How far will this extend? Production and sales are by and large at a critical turning point.

Textiles—Rising Inventories the Raw Material of Anxiety

The present condition of the weaving industry is: "long is high, short is low." That is to say, long fibers, led by polyesters, are strong, while short fibers, such as cotton and wool, are weak.

Linked to the recent high interest rates, the growing inventory of wool and cotton is the raw material for anxiety. We hear voices saying, "Small enterprises in the business of cotton and wool fabrics are holding excessive inventories in the face of high interest rates and cannot get their minds off the question of survival. If it becomes everyone for himself, there may be no choice but to throw in the towel."

Inventory levels are particularly high. For example, as of the end of January 1990, there were approximately 1 million bales (a bale is 181 kilograms) of finished cotton goods in warehouses. That's 25 percent above the normal 800,000 bales.

Absolutely every company, responding to trends in casual wear, raced to high-priced lines in order to maximize added value, whereupon they ran up against a change in business conditions. On top of that, in 1985, the domestic demand for cotton goods dropped 50 percent, while imports rose 60 percent.

On the other hand, "new blend fiber," a new polyester supposed to nearly equal natural fiber, caused textiles which could not but be blends to be developed. Because concepts of femininity and fashion trends change, at a stroke, a fire was lit under demand. However, the opinion now is that this, too, has peaked.

At present cotton and wool spinners are in a slump, although manufacturers of long-filamented blends are doing well, but because many front-line blend fiber manufacturers are trying their hand at the plastic business, with the weak yen and high crude oil prices, profits will drop.

Once again, the rise in interest rates and the drop in stock prices have cooled the capital spending climate. For example, we hear, "We are making an investment of 82 to 83 billion yen (including financing) against an effective total discounted amortization of 40 billion yen. If it becomes difficult to raise capital profitably in capital markets because of the drop in stock prices, then that will lead to creative new methods, and if the situation continues of an investment glut sharply exceeding amortization costs seen in the long-term, we are in trouble." (Reiichi Yumikura, president of Asahi Chemical Industry Co.).

Pulp and Paper—Primary Causes for Increased Costs at the Forefront

The trend in the pulp and paper industry these several years is upbeat to the extent that we hear, "Business conditions are splendid." Expansion due to domestic demand has pushed the pulp and paper industry, which is an industry classically captive of domestic demand, into becoming a runaway boom industry.

In fiscal 1988, supported by a favorable outlook, the industry as a whole made capital outlays of 444 billion yen (compiled by the Ministry of International Trade and Industry). This was an increase of 44 percent over the preceding year. In fiscal 1989, the industry continued to focus on increased capacity and indulged in vigorous capital spending, although it is estimated that the total was 10 percent less than in fiscal 1988. Whatever it may have been, it was at a high level. "Demand and production appear to be in good shape for the future" (Japan Paper Association).

A number of areas of concern have emerged in the pulp and paper industry as well in this period of the weak yen and high interest rates. The demand for paper has followed a beeline straight up for five years. The production of paper for printing and paper for reports is currently showing a 10 percent increase over last year. Although there has been aggressive investment, mills are running "about 93 percent" of capacity. If 95 percent is considered full capacity, then the industry is really already operating at full capacity.

However, the favorable outlook for the pulp and paper industry will be adversely affected if the weak yen and high interest rates continue. Prices of finished products have been tending downward without these pressures. Whereupon, because raw materials and fuel are affected by the weak yen, prices will rise. The very existence of the pulp and paper industry is heavily dependent on imports, and there are large cost increases due to the weak yen. If the yen reaches 160 to the dollar, there will very likely be pressure on industry profits.

On the other hand, capital spending is on the increase, but the burden of high interest rates is heavy. And because the burden of amortization is heavy, there is a double indemnity. If conditions worsen on the heels of investment expansion, the effect will be multiplied two to three times and profits will come under pressure.

Further, with the diversification of demand, the manufacture of a wide variety of products in small lots is advancing. There is a need to adopt a supply-inventory structure to accommodate this, and for that reason, a rise in distribution costs will result. With the industry as a whole in a period of underlying rising costs, such a burden may be easily absorbed now, but when expansion stops, surely the burden will multiply several fold.

The weak yen and the current boost in interest rates are both dark clouds hanging over the pulp and paper industry, which had been anticipating favorable conditions. According to the accounting done as of mid-September 1989, a majority of companies experienced a drop in operating profits over the preceding year. The reason is the rise in the price of raw materials, such as wood chips and imported pulp. In the first three months of 1990, Oji Paper and Jujo Paper are expecting current profits to be down from last year, but what will be the actual results? Fiscal 1990 will see a wide range of things for the industry to worry about.

Chemicals—Although at a High Plateau, Fears of a Slump

Since 1986, the fair winds of fluorocarbons have been blowing, and the chemical industry, coming out of a structural slump, has been singing the anthem of a complete turnabout. While the industry is still in the midst of good times, uneasiness is beginning to overtake it.

There is the case of ethylene, a basic raw material in petrochemicals. Since 1983, as a result of the Production Structure Law (a special, provisional law dealing with structural improvement of production), 32 percent of production capacity had been idle or abandoned, but within a brief period, demand did increase and production capacity through re-operation of equipment and additional investment was quickly restored. In 1986, total production was 4.29 million tons, in 1987 4.59 million tons, and in 1988 a record-breaking 5.06 million tons. In 1989, the total was 5.60 million tons, and in 1990 a modest 6 million tons. For this reason alone, peak conditions are still in effect.

However, there are two essential aspects generating concern: supply and demand. On the supply side, ethylene plants are being constructed, one after another. In addition to the decision by Mitsubishi Petrochemicals and Mitsubishi Chemical Industries Ltd. to construct jointly a second plant in Shikajima, there are a total of six proposals, including a Chiba plant by three companies led by Maruzen Petrochemicals, an Ube proposal by Ube Industries and Mitsui Toatsu Chemicals, Inc., and a proposal for an expanded production facility by the Showa Denko group.

Because new opportunities are great in ethylene and related equipment, not just in Japan but also in neighboring Korea, there is once again the specter of excess capacity that will undoubtedly surface.

On the other hand, price movements suggest a tendency toward lower prices for some chemical products. For example, benzine. In 1988, one kilogram cost 60 yen, but by the summer of 1989 it had jumped to 80 yen, a peak. Since the close of 1989, it has dropped sharply back to 65 yen. In addition, caustic soda at the end of 1988 and the beginning of 1989 was at a peak 65,000 yen per ton when the price began dropping to the 50,000 yen level where it is now. Vinyl chloride resin and low-density polyethylene are treading water, but with the current cost increases for raw materials, no one knows what will happen.

At present, the overt negative factors for profitability seem to be the increased cost of raw materials, which is connected to the weak yen, the increased costs of shipping, and higher labor rates, due to the labor shortage. For those reasons, the increased price of crude oil is causing anxiety and if business conditions sour, reduced demand will follow. Clouds are forming on the horizon.

Pharmaceuticals—A Rollback in Medicine Prices Has the Industry on Tenterhooks

The pharmaceutical industry has no direct connection to changes in interest rates and the weak yen. Its volume of exports is tiny, and therefore any effect from the shift in exchange rates has been minimal.

However, the current source of concern is the price of medicine. In response to the government's policy of regulating medical fees in the past six years, the pharmaceutical industry has reduced drug prices an average of 50 percent. Beginning in 1987, rug prices that were revised once each year are now revised once every two years. The year 1990 will be one of price revision.

Because there will be an average reduction of 9.2 percent (the medical fee base is 2.7 percent) in April 1990, it can be anticipated that consumers will delay purchases. For that reason, we can anticipate that profits for the first three months of 1990 will be reduced.

Sankyo is recommended. Although income from a key anti-cancer drug "Krestin" has been reduced by restrictions in use, there are earnings contributions from major new medicines such as the high cholesterol blood clotting ameliorative "Mevalopin," and the antibiotic "Banan." Profit for the first three months of 1990 is expected to have increased 20 percent above the same period last year to 38 billion yen. Contributing to the profit growth of new medicines is Eisai, which is expected to increase current profits with the ameliorative for gastritis and stomach ulcers "Selbex."

It follows that business results in the pharmaceutical industry, good or bad, hinge on the development of major new drugs. To develop a major new drug, however, requires 10 years and 10 billion yen. Moreover, even at this level of effort, there is no guarantee whatsoever that the end result will be a major new drug. It is an incredible risk.

When considering favorable activities recently in the pharmaceutical industry, straightaway comes to mind Daiichi Seiyaku and Yamanouchi Pharmaceuticals. That is because they have successfully developed a number of major new medicines in recent years.

Daiichi's synthetic antitoxin "Palirivid" and the anti-blood clotting drug "Panaldine," and Yamanouchi's gastritis and stomach ulcer preparation "Gasuta" and the brain function ameliorative "Eren," are responsible for a major share of the success.

In addition to vigorous research and development, the pharmaceutical industry is pouring effort domestically into building new factories and expanding old ones. This is in anticipation of the internationalization that is relentlessly taking place and that originates in the idea that Japan's pharmaceutical industry should think international.

With many companies having an export rate of less than 10 percent of sales, we can expect that in the future exports will be the focus of every company. With continual drops in the price of medicines, the development of promising new medicines and the exploitation of overseas markets will decide the fate of the industry.

Commercial Companies—High Interest Rates Bring on Debt and Hit Hard

The "three highs"—high interest rates, the high dollar and high crude oil prices—and the drop in stock prices, collectively, have created a deteriorating commercial atmosphere. The scenario is easily imagined in which business growth is blunted, first by the difficulty of raising funds in the face of high interest rates, and secondly by the chilling effect on business caused by the four reasons listed above.

With regard to the high interest rates, the head of Marubeni's department of research and information (Hatsuo) Yamanaka says, "Despite increased business opportunities, the difficulty of raising capital is tying corporate hands and is a negative factor." Firms have been eagerly into equity financing, with the front-line companies Mitsubishi Corp., Mitsui & Co., Marubeni, Sumitomo Corp., and Ito Shoji Co., each having raised 400 to 500 billion yen in capital in the past three years. Therefore, there is immediate abundant cash on hand, but the predisposition of each company to rely on short and long-term debt (excluding commercial paper) to the tune of two to three trillion yen continues unabated. Although each company is eagerly developing new forms of business by setting up 30 to 50 new companies every year, there is concern that the boost in interest rates will throw cold water on such activity. With the drop in stock prices, the road to equity financing will be narrowed and therefore painful.

The high dollar (weak yen) is a plus in terms of exports, with added receipts brought in from overseas. Even with the increased price of crude oil, there is also the anticipated advantage of additional major projects in the Middle East with a positive international shift in cash flow for oil producing countries.

However, if we look at the situation overall, the strong dollar and the high price of crude oil are negative factors. The reason is that if the price of goods rises still more, interest rates will also rise still further, and business conditions will be decisively affected. At a time when it is feared that business conditions have passed their peak and that weak stock prices have cooled off consumption, if that turned out to be true, it would be extremely bad. For companies that have been making better showings the past three years chiefly due to domestic demand, it's like slamming on the brakes.

Marubeni's department head Yamanaka said, "It's still not the time for pessimism, and the outlook for the year ahead is a level flight path at high altitude. However, starting with the year following, high interest rates, a weak yen and lower stock prices will work as negative factors." With high interest rates, a strong dollar, high crude oil prices and a weak stock market—the so-called "four-fold hardship"—it appears that applying the brakes to the pace of increased corporate profits will be unavoidable.

Department Stores and Supermarkets—Personal Spending Continues Unabated

Domestic sales for the month of February for department stores increased 7.0 percent over the same month last year. This is less than January's 8.1 percent, but greater than last year's 6.2 percent.

On the other hand, the February results for chain stores was a 2.8 percent increase over the same month last year, a continuing lag behind department store results.

Although sales for department stores have recovered nicely since the introduction of the consumption tax in April of 1989, apparently chain stores have not recovered completely.

The reason is not just the consumption tax. Chain stores are not responding to the desire on the part of consumers for high quality. What is more, even with regard to consumer desires for discounts, chain stores cannot match specialized discount stores in bold "price smashing." For the consumer, that kind of half-measure existence is a fundamental problem. On top of that, another factor creating a gap between chain stores and department stores is the presence of juridical demand. The outlook for foreign department store sales continues to be favorable.

It is difficult to ascertain just how changes in the economy, to include the weakening of the yen, the sharp drop in stock prices and the rise in interest rates, will affect the distribution industry and consumption.

Such views as, "In the short term, asset efficacy will be diluted, and there is the possibility that service products such as top-of-the-line goods and travel will be clouded over," (a department store president), but that over the

long term personal consumption will expand, are prevalent in the department store arena. It will take time for the boost in interest rates to make itself felt in the area of personal consumption. Still, wage hikes in 1990 are probably a key factor.

Construction—Public Projects Having Major Impact

The construction industry is one that will continue expanding its business base. According to the results of a study released earlier by the Japan Construction Industry Association on industry backlog as of January, the total backlog at 1.2758 trillion yen was 11.4 percent higher than for the same month last year. According to the results of a study of accumulated completed work during a four-and-a-half month period and of the unfulfilled orders in the construction industry, during the three-month period from October through December of 1989, there was a 27.5 percent increase over the previous year at 4.8689 trillion yen, and at the end of December backlog in construction totaled 18.5674 trillion yen, an increase of 18.4 percent, attesting to continuing good business conditions.

The Japan Federation of Construction Contractors has issued a bullish forecast that says, "February and March will both be excellent months. Although we are still gathering data to forecast demand for the new fiscal year, business conditions are not bad." The background behind the good conditions is that the demand for office buildings at city centers is increasing; furthermore, in the Tokyo and Osaka areas, waterfront development and construction investment centered on the public arena continues. Chemical, steel and machinery manufacturers are increasingly placing more orders for construction. Nonmanufacturing sectors such as electric power, communications and the service industry are increasing their orders as well in continuing to rationalize investments, and that cannot be overlooked. All the front-line general contractors are saying, "We're up to our eyeballs in major projects and we have a year-and-a-half backlog. Our problem is how to solve the labor shortage, which has to be resolved somehow, either through the development of new construction methods or making do with subcontractors. The tendency toward high interest rates is not the immediate business worry." The public construction divisions of mid-sized companies such as the Fujita Corp., Mitsui Construction, Japan Development and Construction, and Ando Construction are doing well as they continue to increase profits and break records.

In particular, for Shimizu Construction, which has as its business base the environs of the capital, an economic treasure house, business results based on increased effort to move from a system of backlogging orders to one of "proactive creation of orders" involving a structure of planning and tender offers are excellent. Operating profits continue to expand at a double-digit rate, with a 91 percent increase at 76 billion yen for the first three months of 1990, and a 13 to 18 percent increase of 86 to 90 billion yen in the first three months of 1991. Each of the companies mentioned above is recording double-digit rates of growth and are continuing to expand their business base. For this reason, construction industry gross profits are climbing en masse. Even were the industrial sector's outlook to sour, there would be a time lag protecting the construction industry. There seems to be a firm consensus that the favorable outlook will continue as the current backlog is worked off over the next one to one-and-a-half years.

Real Estate—Both Housing Starts and Office Buildings Brisk, With a Repeat of Maximum Profits in 1990

The sharp rise in land prices has spread to rural Japan and the acquisition of land for industrial purposes has become difficult. Every real estate company is concentrating on cooperative enterprises with land owners. Still, even with high interest rates holding back home loans and with the concern that there will be diminished incentive for construction, it is estimated that the high level that saw 1.67 million homes built in 1987, 1.68 million in 1988 and 1.68 million in 1989 will continue. With the demand for remodeling running above 60 percent, especially in the capital area, we expect home construction in fiscal 1990 to remain strong.

Condominiums are lively, too, and Daikyo Co., in the first three months of 1990, has planned 13,500 units, and for the first three months of 1991, 18,000 units, and is aiming at the luxury market. The Mitsui Real Estate Development Co., Ltd., plans a total sales of more than 9,000 condominiums during the year. Mitsubishi Estate is also planning increased sales of condominiums. Although Sumitomo Realty and Development is holding down its number of units, the unit price is going up and proceeds continue to increase. Be that as it may, the prospects for housing continue to look vigorous.

As for leased buildings, the vacancy rate for major buildings at city centers is one percent, meaning over-occupancy. Mitsubishi Estate and Mitsui Real Estate Development Co. especially, but also Sumitomo Realty and Development, whose sales-to-leased-buildings ratio is 54 percent and who is an old hand in the field of leasing buildings in Tokyo, intend to expand building management as a stable source of income. The condominium power house, Daikyo, completing the Kioi-machi Building in December of 1989 and during the year expecting 6.5 billion yen in rental fees, architected this management bedrock of stability. The demand for office space in Tokyo, which has become the world's financial center, flourishes, but with the sharp rise in land prices and the paucity of suitable land there, major buildings are proliferating in the city centers of Omiya, Chiba, Yokohama, etc. Mitsui Real Estate's Tsukuba and Baku-cho, and Nomura Real Estate's Yokohama Business Park (YBP) are examples of the trend.

Among real estate companies, Tokyu Real Estate from early on has developed membership resort projects and

is in a groove, putting together resort condominiums, and gaining future advantage. Its business base continues to expand.

Because all real estate firms are involved in major hotel, leisure and resort ventures, commercial facilities, and other projects, it appears that the recent boost in interest rates will have a significant future impact. For businesses which dealt in small lots of real estate securities that took off during the period of high stock prices and a strong yen, the importance of investment in foreign real estate will probably increase. But whatever, front-line real estate firms are planning on their usual high rate of returns for the first three months of 1990 and for the first three months of 1991.

Energy—The Triple Whammy

The situation in the petroleum industry is one of seeing dark clouds on the horizon but not knowing when it's going to rain. One pervasive factor is that since the start of 1990 every company has raised the price of gasoline two to three yen per liter and intermediate crude (lamp and light oil) three to four yen per liter. However, due to the robust domestic demand for petroleum products, sales volume is not weakening. It appears that we can expect an increase in sales volume of 4.5 to 5.0 percent in 1990.

A possible sudden jump in the import price of crude above even current levels is not currently foreseeable. We are in an "equilibrium at high price levels." In August of 1986, a barrel of crude cost $10.34, but in the blink of an eye it jumped to $20. Now it has fallen back to about $18.

It is of immediate concern to impute for any increase in prices crude oil price increases, which is the preoccupation of every company. Accounting firms are seeing a drop in profits even with an increase in sales, despite still not having the sales figures for December of 1989 and the first three months of 1990.

A drop of one yen in the exchange rate costs Nippon Oil 5 billion yen and the power industry 3 billion yen. If the current situation with the exchange rate at 160 yen to the dollar continues, there will be a tremendous pressure on profits. On the other hand, the boost in interest rates yields a checkered result for the oil companies. High interest rates function as an operational funding plus for Nippon Oil, with its cash flow of 9.377 billion yen, and Toa Nenryo Kogyo, with its cash flow of 10.275 billion yen. In contrast are the debt-laden Showa Shell Sekiyu (321.4 billion yen), Cosmo Oil (111.7 billion yen) and Mitsubishi Oil (145.3 billion yen).

New construction of gas stations was regulated until March 1990, but with the elimination of that regulation, competition from April on will be keen and the boost in interest rates will subtly dominate. It is our thinking that there will need to be some slowing down in the proliferation of gas stations.

Business estimates for December 1990 and March 1991 by accounting firms are all of a sudden predicting the recovery of business profits and even profit increases, on the assumption that the cost of the finished goods will gradually be absorbed, but is that really the case?

Electric power companies are uniformly reporting decreases in profits for the first three months of 1990 following a drop in their rates in April of 1989. The weak yen, high interest rates and the rising price of oil are "triple whammies." The situation is particularly negative for capital hungry electric power companies whose capital spending needs are massive. The total debt of Japan's nine electric power companies is 12.6417 trillion yen. If interest rates rise one percent, this in itself means an additional 120 billion yen. With Tokyo Electric's debt of 4.6417 trillion yen, a rise of just one percent in interest means an increased cost of 46.4 billion yen. That's an increase of 127 million yen per day in interest. Tokyo Electric is anticipating capital spending in 1990 totaling 1.35 trillion yen. A rise in interest rates is a huge cost increase. Despite this, there was a 6.0 percent rise in the demand for electric power in the first half of fiscal 1989 over the preceding year, and for the second half it is expected to exceed 5.7 percent. It appears that in fiscal 1990, commercial demand will increase just two percent, but with conditions favoring continued demand by the public for power, it appears that the overall annual demand increase will reach five percent. The consensus among the power companies is to keep up with increased demand despite the weak yen and costlier oil.

Business Boom Said Heading for New Record

OW0606122890 Tokyo THE DAILY YOMIURI in English 3 Jun 90 p 1—FOR OFFICIAL USE ONLY

[Economic forum" article by Yoshio Matsui, YOMIURI SHIMBUN economic editor: "Business Boom Heading For New Record"]

[Text] The current business boom has now lasted longer than the second longest stretch of postwar prosperity, which lasted for 42 months from July 1958 to December 1961, and may even outstrip the record-long "Izanagi business boom" which went on from November 1965 to July 1970.

Since the beginning of this year, the Japanese economy was rocked by the so-called "triple declines"—fall in the value of the yen, plunging stock prices and drop in the bond market. Moreover, the yen's depreciation accelerated in April.

Against such a background, until very recently the general forecast was that it would be almost impossible to renew the record of the Izanagi boom. Business watchers pointed to gradually rising prices and interest rates as detrimental to the continuity of the euphoria.

But since the meeting of the finance ministries and central bank governors of the Group of Seven industrial

nations, the yen's slide has been checked. Once traded at the Y160 level against the dollar, the yen is now sometimes strong enough to exceed the Y150 to the dollar mark. Although it is too early to describe the current situation as an appreciation of the yen, the currency has certainly reached a stable and favorable position.

Favorably responding to this situation, stock prices are taking an upward course, though at a slow tempo.

Interest rates have recently tended to dip slightly and therefore, a fifth increase in the official discount rate to combat inflation seems unlikely. In this sense, the past unstable business conditions surrounding the Japanese economy are changing into a favorable direction. These circumstances help the government to build up confidence in the continuity of the business boom. Hideyuki Aizawa, director general of the Economic Planning Agency, said with confidence that as far as the current data are concerned, there is no need to fear a business slump and therefore there is no need for any countermeasures.

Such a favorable situation is reflected in the strong willingness to carry out capital investment. According to a recent survey by the International Trade and Industry Ministry, capital investments projected for fiscal 1990 are up 13 percent from actual investments in fiscal 1989.

By category, investment in research and development is set to increase by 20.9 percent and that in rationalization and labor saving systems to rise by 18.4 percent. These figures threaten no overproduction and the nature of the investments can be termed sound.

Brisk consumption is also serving as an important factor in bolstering business. Operators of department stores and supermarkets believe that the undertone of consumption is firm. This is shown by the fact that April sales of men's clothing, mainly suits, one barometer of the state of business, were up 23 percent from the same month of last year.

As long as firm capital investment and consumption continue, the business boom is certain to last. I predict with confidence that the current business growth will continue until the end of this year, at least coming only several months behind the Izanagi boom.

However, the potential impetus of the current business boom has apparently dwindled from around April last year. This raises fears that business may have no power of buoyance if it runs out of steam due to the appearance of some sudden factors. The Izanagi boom once seemed to falter. But the crisis was averted by growing exports. But this time the Japanese economy cannot depend upon an increase in exports if a crisis should arise. This may be the sole Achilles heel.

Domestic

Antinuclear Association Agrees on Group's Plan

OW0406110190 Tokyo JPS in English 0948 GMT 4 Jun 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jun 3 JPS—The Association for a Non-Nuclear Government held its 5th general meeting on June 3 in Tokyo.

Based on an analysis of the world situation and the nuclear policy of the Japanese Government, which follows the U.S. nuclear strategy, the meeting agreed a plan for the movement, which stresses legislation for the three non-nuclear principles, enactment of a hibakusha (A-bomb sufferers) relief law, and the expansion of "nuclear-free" municipalities.

On behalf of the organizer, Tokuji Kameda, standing coordinator said: "The time will come without fail when the problem of nuclear weapons will be decided by the people's will. We must prepare for that time, with far greater strength of the association both in quality and quantity."

Koshiro Okakura, standing coordinator, delivered a report on developments in the international situation last year, focusing on the nuclear weapons question. In the discussion, criticisms of the policy of the Liberal Democratic Party [LDP] government, which is clinging to nuclear weapons and supporting the U.S. nuclear strategy, were heard.

A representative from Kobe, where the city is rejecting the entry of ships into the port which do not show no-nuclear weapons certification, referred to the Foreign Ministry's position that the central government is not concerned with the issue because the Kobe formula is merely a view of one municipality. He criticized the government's ignorance of local government on their plea for the Japan-U.S. security treaty.

Mitsuhiro Kaneko, head of the Secretariat of the Japanese Communist Party, criticized the successive LDP governments which have trampled on the three non-nuclear principles. He cited some incidents which prove that nuclear weapons have been brought into Japan, and he criticized the government for having deceived the people. He emphasized the importance of the movement for the enactment of the three non-nuclear principles. He also referred to the START (Strategic Arms Reduction Talks) between the U.S. and the Soviet Union, saying that the agreement is a step for the reduction of nuclear weapons, and is welcomed. He said, however, "it will take no less than seven years before it is actually carried out, and enormous nuclear weapons remain in both countries. This means that the movement for the immediate elimination of nuclear weapons is crucially important more than ever." He said that this is included in the five goals of the association.

Various actions carried out by prefectural associations were reported in discussion. The Kagoshima Association: Visited 72 towns and villages in the prefecture, and called for a nuclear-free declaration to be adopted by those municipalities which have not yet done so, and requested a certain action by those which have already made a declaration. Kumamoto Prefecture: The association staged a musical, the story of which is an elephant killed by the military at the end of the war. It was a great success, with participation by 700 people. The Tokyo association: A successful movement leading to the establishment of the "Nakano Ward ordinance on peace administration" in the spirit of the non-nuclear declaration, the first among municipalities. [preceding three sentences as received]

The association published an appeal calling for strengthening power at the grass roots, for the establishment of a non-nuclear government in Japan.

Article Views High Technology Programs

OW0206005890 Tokyo THE JAPAN TIMES in English 31 May 90 p 3—FOR OFFICIAL USE ONLY

["National" column by staff writer Emily Thornton: "Local High-Tech Progress Discerned"]

[Text] Nagasaki—Technopolis—the Ministry of International Trade and Industry's [MITI] plan to decentralize high-tech industry, once feared to be ineffectual against a strengthening yen—is back on track again, officials say.

The necessary infrastructure has been laid by many of the 26 prefectures participating in the project. And many of the prefectural Technopolis foundations overseeing local efforts can boast of recent technological developments and high-tech products invented by small and medium-size companies, ranging from mechatronic microcomputers to hydroponic flowers.

There is just one problem. Many of these companies do not know where they can market their work.

Technopolis is a 10-year-old MITI plan designed to encourage regional development and the decentralization of frontier technological industries such as biotechnology, telecommunications, fine ceramics and new materials, and aviation and space activities.

The main thrust of the program is to revitalize local economies by creating high-tech centers throughout Japan in pleasant residential areas that have universities strong in the sciences.

Different Approaches

The Technopolis Foundation in Ehime Prefecture is embarking on high-tech projects under the theme of "Man and Technology: Creating an Ehime Human Techopolis." So far the foundation has sponsored high-tech developments in the fields of biotechnology, telecommunications and mechatronics.

Meanwhile, Hokkaido is attempting to build a "Technofrontier" by motivating companies for achievements in new materials and other so-called frontier technologies.

While this ambitious goal is far from being realized in many Technopolis locales, the program has been slowly proceeding, MITI officials say, ever since high-tech companies realized that a strong yen will not spell the end of corporate profits.

After the Plaza Accord in 1985, when the advanced industrial nations agreed to strengthen the yen, many Japanese companies, worried that they would not be able to compete with foreign products, set up production facilities abroad. But by 1987 Japanese companies were still showing great profits, and they felt confident enough to set up more domestic manufacturing facilities as well.

In response to this trend, the national government decided in its revised fiscal 1990 budget to match any funds set aside by prefectural governments to aid small and medium-size companies market and design high-tech products—a challenge, some officials say, that may prove even more difficult than encouraging research and development.

All prefectures involved in the Technopolis program have applied to set up "Regional industry activation" funds totaling Y14 billion. Yamagata, Toyama, and Kumamoto Prefectures have each set up funds amounting to Y900 million, a MITI spokesman said.

Other Incentives

This is not the first time the government has offered financial incentives for the Technopolis project. From the start, any corporate investments made in connection with the Technopolis program have been taxfree. Technopolis centers have also been able to serve as guarantors for many small companies that otherwise might not have had access to necessary venture capital.

As of the end of the 1988 fiscal year, Technopolis foundations nationwide had served as guarantors of 180 companies for about Y2.36 billion, MITI statistics show.

Nagasaki Prefecture, which joined the program in 1985, is one of the prefectures now in the process of selecting the companies it will help with the newly formed fund. Toru Yoshii, managing director of the Nagasaki Technopolis Foundation, said the prefecture plans to use the funds to research possible markets for some high-tech products recently developed by companies there.

"We're beginning to see some technological advances made by our medium-size and small companies," said Katsuyoshi Nakashima, head of the Nagasaki Technopolish Foundation, while proudly describing each of the technological developments displayed in the foundation's promotion pamphlet.

One company called Sasebo developed an intelligent robot that can take photos underwater and has sensors

that enable it to adjust to different water depths. But is it on sale? "Well, that's the problem," says Nakashima. "The company doesn't know whom they can sell the product to."

Finding Markets

Yoshii said some small companies in Nagasaki have made products before researching their market potential or have seen products similar to theirs produced by larger companies because they failed to patent their inventions. Most of the companies have not been able to afford lthe necessary market research for their inventions, he said.

A MITI spokesman said the ministry is now conducting a midterm review of the Technopolis program in cooperation with four other ministries. The ministry hopes to release a report—by the end of this fiscal year if possible—that will set guidelines so the Technopolis program can reach its goal by 2000.

High-tech research and development projects facilitated by Technopolis foundations sextupled between fiscal 1984 and 1988, reaching a total of 63 in 11 Technopolis areas. The number of joint research projects conducted by universities and companies under the Technopolis umbreila doubled to 310 during the sanie period, according to MITI.

Between 1984 and 1988, the number of high-tech factories set up in Technopolis areas grew from 142 to 209, a 50 pecent increase and more than the national average during the same period, MITI statistics show.

"At one point we ere very worried about the program, since most companies were setting up manufacturing facilities abroad to take advantage of the strong yen, despite economic incentives offered by Technopolis regions here," said the MITI official who asked not to be named. "Now, however, it's proceeding steadily.

"It's not that we think our project has been completely successful in encouraging small and medium-size company high-tech research. But at least there have been some developments."

At the same time, he admitted that the companies "have absoluely no knowledge of how to market" their brainchildren.

Rocket Development Plan for Satellite Launchings

OW3105060190 Tokyo YOMIURI SHIMBUN in Japanese 23 May 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] The Science and Technology Agency [STA] and the Nationai Space Development Agency [NASDA] on 22 May firmed up a long-term plan. Under the plan, a company named Rocketsystem, to be established on 5 July (with its head office in Minato Ward of Tokyo), will be entrusted with the procurement and launch of H-II large-type home-made rockets. Development of the rockets is under way, with the goal of launching one in 1993. The company is intending to become a Japanese version of Arianespace Company in Europe, which has been launching communications satellites for other nations. The company also aims to become a full participant in the world man-made commercial satellite launch market, in which Japan largely falls behind other nations, through cutting back on launch costs. The government has entrusted private companies with the development of communications and broadcasting satellites, which had been previously carried out by the government, in the wake of the occurrence of friction between Japan and the United States over the issue of purchasing man-made satellites. The government, however, plans to make a major shift in Japan's space development policy by entrusting a private company with the procurement of rockets and their launches.

The capital of the company to be established amounts to Y480 million, and will be raised by investments from 77 companies, including Mitsubishi Heavy Industries Company and Ishikawajima-Harima Heavy Industries Company, all of which have been involved in Japan's space development projects. Yoshio Sasaki, adviser to Mitsubishi Heavy Industries Company, is expected to assume the presidency of the new company. The company plans to place a package order for the H-II rockets and to sell them to the NASDA to lower costs.

The company plans to survey the world's satellite launch market and to begin a launch business for commercial satellites, to be used for communications and broadcasting at home and abroad, using the H-II rockets from 1995.

The H-II is Japan's next-generation rocket, capable of putting 49-meter long and 2-ton stationary satellites into space, and is equal to Europe's Ariane 4-type rockets and U.S. Titan 3-type rockets, which are presently putting commercial satellites into space. The H-II will put 6-type satellites into space for technical testing. The level of technological development to test the performance of rockets is all but complete. At present, there are plans to launch a No. 5 stationary weather satellite (in 1993), platform technological satellites for the observation of the earth (in 1994) and research-development satellites, in the areas of communications and broadcasting (after 1995). Therefore, the STA and the NASDA are examining the future operation of the rockets after that period.

Since the 1986 explosion accident involving the space shuttle, the National Aeronautics and Space Administration (NASA) of the United States has transferred the procurement and launch of rockets to private companies. In Europe, Arianespace Company has been launching commercial satellites since 1980, using rockets developed by the European Space Agency (ESA).

Amid these moves, the world's annual demand for commercial satellites until the mid-1990s is expected to

be from 15 to 20. The STA and NASDA plan to make business inroads into the international market by entrusting the private company with the procurement of rockets and their launches, in the belief that the company will be able to compete economically with its counterparts in the United States, European nations, the Soviet Union and China, which "are ahead of Japan in launching commercial satellites."